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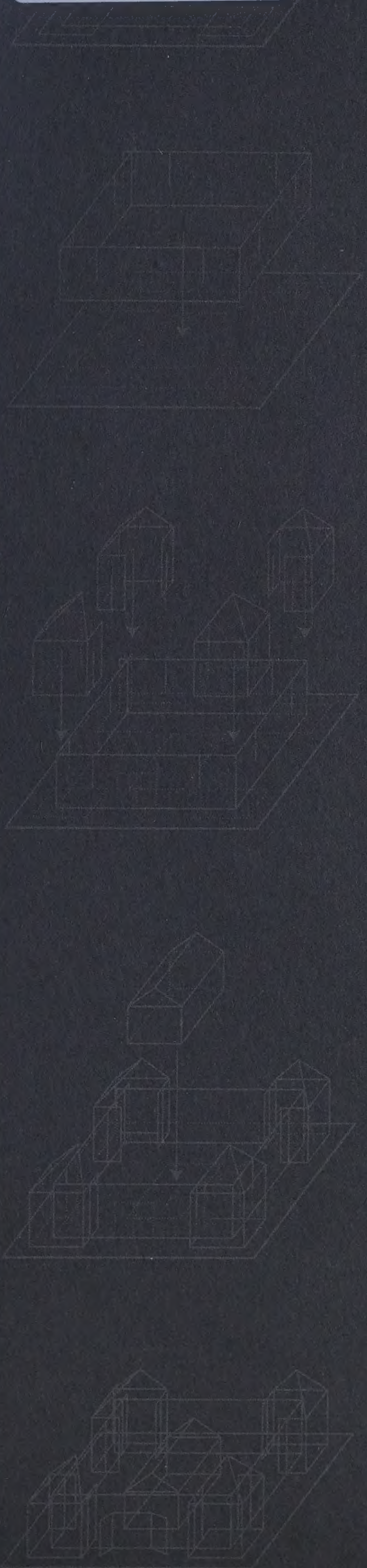


FORT CHICAGO

building a fort

strategy

structure

diversity

resources

community

strategy Building a secure and enduring fort requires a well-thought-out strategy, strong leadership and teamwork, and a geographic location that provides distinct advantages. Fort Chicago's strategy is focused on building a diversified portfolio of long-life energy infrastructure assets that support growing and stable distributions for our Unitholders.

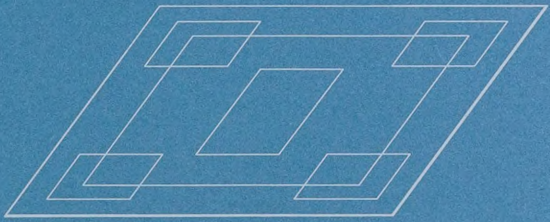
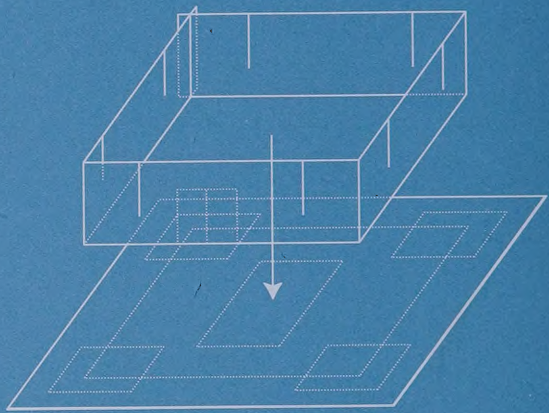


fig.

ig. b



structure The ramparts of a fort are massive and solid. They are built of long-life natural materials, securing the longevity of the structure and the headquarters nestled inside. Fort Chicago continues to build upon the solid foundation of the Alliance Pipeline, which provides a base level of predictable and stable cash flow.

diversity Forts are built to oversee newly conquered and diverse territory, providing a safe haven for new settlers and traders. Fort Chicago's recent acquisition of the Alberta Ethane Gathering System builds upon our existing asset base, providing additional diversity and an added source of stable cash flow, contributing to a higher, more secure distribution.

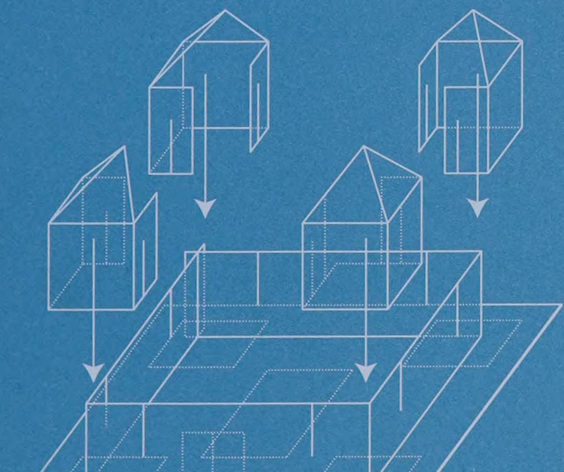
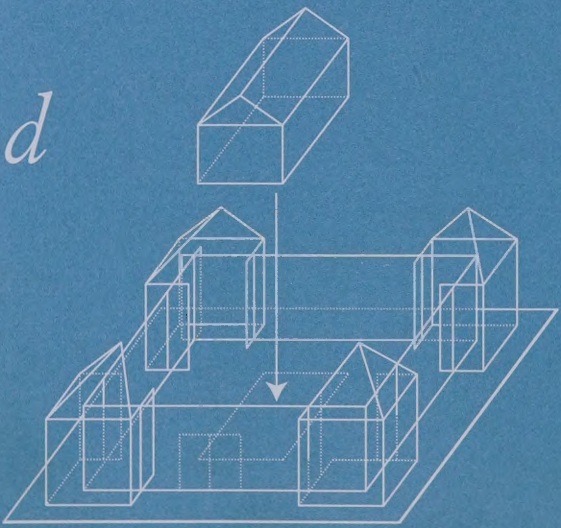


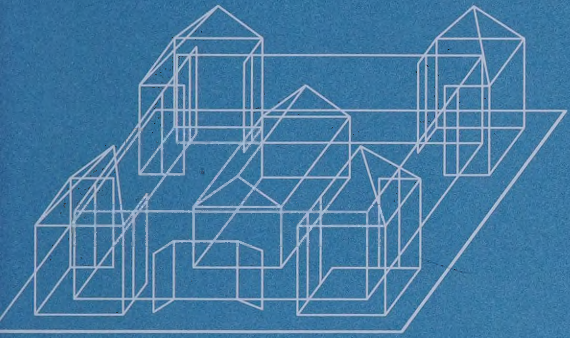
fig.

resources

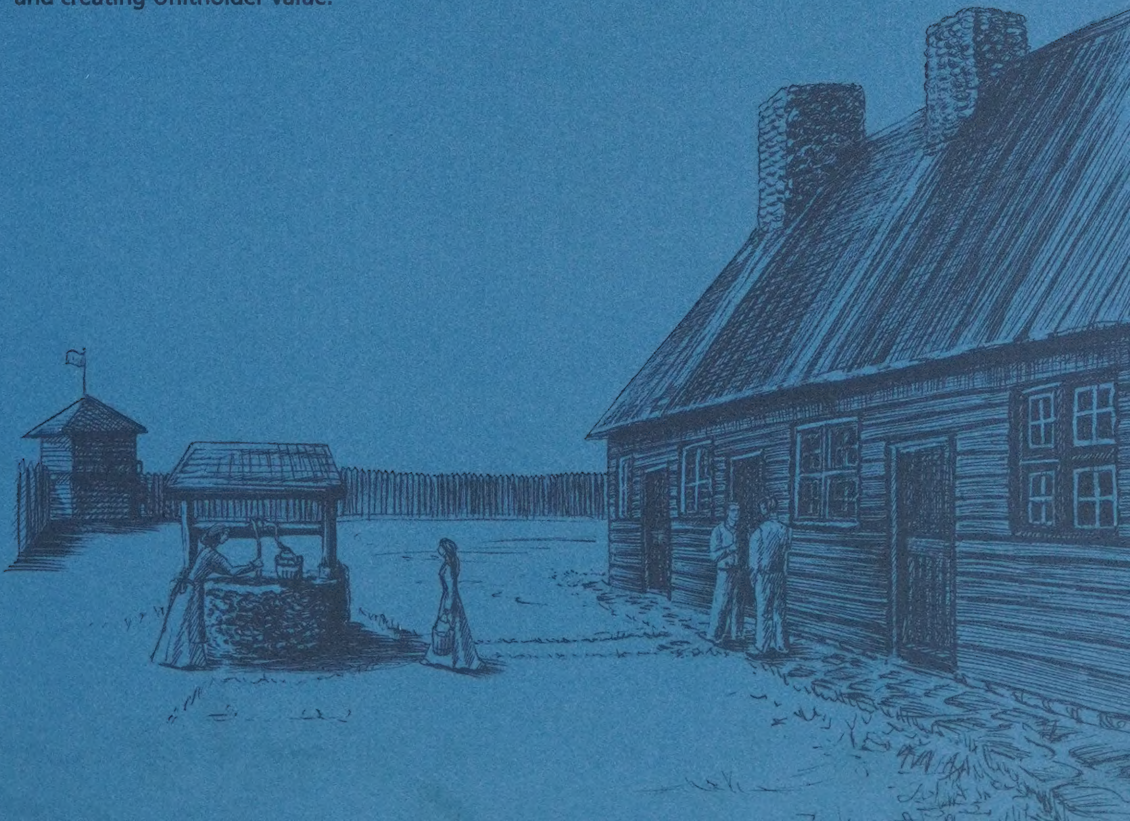
Self-sufficiency equals stability. Found within forts were food storage buildings and stables. Carpenters and stonemasons efficiently and expertly maintained the buildings, while soldiers were well armed and trained to protect. At Fort Chicago, our strongest resources are our people, who under the guidance of an experienced and independent board, and a skilled and cohesive management team, manage our high quality assets. These people are also instrumental in seeking out opportunities to add value and reduce risk for our Unitholders by capitalizing on investment opportunities within each of our existing businesses and through accretive acquisitions.

fig. d





community The builders and protectors of the frontier fort were always aware that its occupants entrusted their leaders to maintain the safe haven of the fort. It was their landmark, their community, and their government. Corporate governance has always been a priority for Fort Chicago. The Board and management team are committed to adhering to high ethical standards, delivering stable and growing distributions, and creating Unitholder value.



Many ask how the name of Fort Chicago Energy Partners L.P. came about and many believe, because of the name, that we are based in Chicago, Illinois. In actual fact, Fort Chicago is a Canadian enterprise based in Calgary, Alberta. Our descriptive, yet symbolic name comes from our founding investment in Alliance Pipeline, which extends from Fort St. John, British Columbia, to Chicago, Illinois.

CORPORATE PROFILE

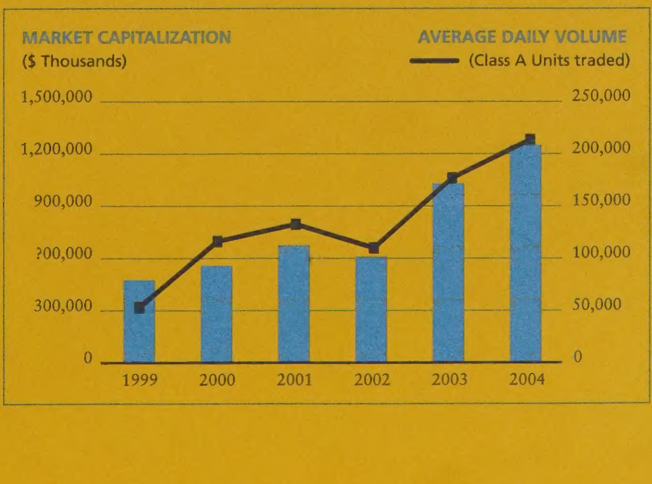
Based in Calgary, Alberta, Fort Chicago Energy Partners L.P. ("Fort Chicago") is one of Canada's largest publicly traded enterprises in the income trust sector. With an enterprise value now in excess of $3 billion and a 2004 total Unitholder return of 21 percent, Fort Chicago's management continues to demonstrate its commitment to increasing distributions and Unitholder value. Fort Chicago's Class A Units trade on the Toronto Stock Exchange (the "TSX") and are rated STA-2 (low) by Dominion Bond Rating Service, which reflects very good stability and sustainability of distributions.

Since its inception in 1997, Fort Chicago has adhered to its primary objective of increasing per-unit value and distributable cash for its Unitholders. This has been achieved by prudently managing its existing investments and by making accretive investments in long-life energy infrastructure assets. Today, Fort Chicago has three principal businesses – Alliance Pipeline, Aux Sable, and the Alberta Ethane Gathering System.

Alliance Pipeline, in which Fort Chicago holds a 50 percent interest, is an integrated, high-pressure natural gas pipeline that stretches approximately 3,000 kilometres across North America. With an extensive gathering system, Alliance transports natural gas from the gas-rich regions of British Columbia and Alberta to delivery points near Chicago, Illinois, a major natural gas market hub. The system is capable of transporting 1.325 billion cubic feet per day of liquids-rich natural gas on a firm-service basis.

Aux Sable, in which Fort Chicago holds an approximate 42.7 percent interest, operates a natural gas liquids ("NGL") business comprised of a world-scale extraction and fractionation facility near the Chicago terminus of the Alliance Pipeline, capable of recovering up to 100,000 barrels per day of ethane, propane, normal butane, iso-butane and natural gasoline; storage and distribution facilities; long-term firm transportation capacity on the Alliance Pipeline; and NGL injection facilities connected to the Alliance Pipeline in Alberta and British Columbia.

Alberta Ethane Gathering System ("AEGS"), which was acquired by Fort Chicago in December 2004, is a key component of Alberta's energy infrastructure and of particular importance to Alberta's world-scale NGL extraction and petrochemical industries. AEGS is a 1,324-kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta.



letters to unitholders

CHAIRMAN'S LETTER

Fellow Unitholders,

2004 has been a year of many successes for Fort Chicago. It was the first full year under the guidance of the new management team led by Mr. Stephen White. The exceptional financial results are reported in more detail by the management elsewhere in this report. The prudent growth strategy established for Fort Chicago in 2003 led to the successful acquisition of the Alberta Ethane Gathering System in late 2004. This asset is an example of the high-quality, long-life assets that Fort Chicago will continue to seek out with the goal of diversifying cash flow, growing distributions and creating value for our Unitholders.

Also in 2004, Fort Chicago experienced for the first time the earnings and cash flow potential of our Aux Sable investment. The Aux Sable results were impacted by depressed margins for the first half and the impacts of hedging during the second half of the year. However, Aux Sable did commence making distributions to its owners in the second half of 2004. Aux Sable is still subject to the volatility of the NGL frac margin, but the return to health of the petrochemical industries and the unprecedented price of crude oil have more than offset the impacts of higher natural gas prices. Going forward, the Board will continue to seek a balance between rewarding our Unitholder through higher distribution as a result of the improved performance of Aux Sable on the one hand, and delivering stable and sustainable distributions on the other hand. Recognizing this balancing act, we have twice increased the monthly distribution stream in the last six months.

On the issue of corporate governance, your Board further strengthened its governance in 2004 with the appointment of Mr. David Drybrough as the Chairman of the Audit Committee, and expanded the membership in view of the increasing responsibilities of this important committee. Mr. Drybrough brings over 37 years of experience in the public accounting profession and seven years as the Chief Financial Officer of a public company. The Board of the General Partner is truly committed to working for you, our Unitholders. Five of your seven members remain independent from management.

The Board's principal role is to assist management in setting the Partnership's strategy as well as guiding, mentoring and monitoring management in executing that strategy. The Board has also collaborated with and developed objectives for the Chief Executive Officer and the management team. These objectives remain substantially unchanged and include:

- Increasing each of distributable cash per Class A Unit and net present value per Class A Unit by five to 10 percent per annum;
- Investing $200 to $300 million annually in long-life infrastructure assets that generate stable cash flows and further diversify the Partnership's asset base; and
- Maintaining a conservative capital structure that provides ready access to capital markets to finance new investments.

I would like to thank Stephen White, your Chief Executive Officer, and his management team, who have worked diligently towards growing and diversifying Fort Chicago in a profitable manner.

I would also like to thank the efforts of my fellow directors, whose dedication and insights have helped build Fort Chicago into one of the largest and most profitable income fund vehicles in Canada.

Submitted on behalf of the Board of Directors of Fort Chicago Energy Management Ltd., the General Partner of Fort Chicago Energy Partners L.P.

Guy J. Turcotte
Chairman

PRESIDENT'S LETTER

2004 was another very rewarding year for Fort Chicago and its Unitholders. For the year ended December 31, 2004, Unitholders of Fort Chicago earned a total return of 21 percent, outperforming most comparable infrastructure funds and North American indices. While favourable capital markets contributed to this performance, I would like to touch on a number of factors that I believe also contributed to this result and that position Fort Chicago well for further growth in the future.

GROWTH INITIATIVES

In December, Fort Chicago acquired a 100 percent interest in the Alberta Ethane Gathering System ("AEGS") for an aggregate purchase price of approximately $273.3 million. This pipeline system transports pure ethane within Alberta, and is an integral component of Alberta's petrochemical industry. Also in 2004, Fort Chicago continued to seek accretive growth opportunities, both within our existing businesses as well as through acquisition. Alliance completed several additional lateral supply expansions and is proceeding with a recently approved five-megawatt electrical generation project utilizing waste heat from one of its compressors, which may lead to further such projects. Aux Sable continued to grow its injection and fee-for-service businesses, both of which provided a meaningful contribution to earnings, and has identified several high-return projects that are currently being implemented or evaluated. The AEGS acquisition and the growth initiatives of our businesses are each expected to generate a stable stream of annual earnings and cash flows that will support higher distributions in future.

FINANCING ACTIVITIES

Following the successful refinancing initiatives completed in 2003, Fort Chicago entered 2004 with a strong balance sheet. During 2004, Fort Chicago established a three-year $300 million committed revolving credit facility on attractive terms that provides us with increased financial flexibility and can be used for general purposes, including the initial funding of acquisitions, as was done with AEGS. Also, holders of $71 million of our Series A Convertible Debentures exercised their right to convert these securities into Class A Units, as a result of our Unit price being well in excess of the exercise price.

Substantially all of Fort Chicago's consolidated debt is fixed rate and long term and, with the exception of the subordinated convertible debentures and borrowings under revolving credit facilities, contain terms to maturity and amortization periods that are designed to approximate the applicable depreciation associated with the underlying assets. This structure serves to minimize our refinancing risks and exposure to changes in interest rates.

Maintaining a solid capital structure supported by strong and stable ratings is a key aspect of Fort Chicago's strategy and ensures that we have ready access to the capital markets on attractive terms and conditions. Following our acquisition of AEGS, Standard & Poor's and Dominion Bond Rating Service reaffirmed Fort Chicago's BBB credit rating (with a stable outlook) and STA-2 (low) stability rating, respectively.

Going forward, we will continue to monitor capital markets with the view to opportunistically refinance the acquisition of AEGS with an appropriate combination of debt and equity.

OPERATING RESULTS

Detailed reviews of the Alliance and Aux Sable operations appear later in this report. In summary, Alliance continued to perform in a reliable manner, exceeding our operating targets and transporting near record levels of natural gas to U.S. Midwestern and Eastern Canadian markets at a competitive transportation cost. In March, Mr. Murray Birch, a former Board member with over 25 years of experience in the energy industry, was appointed President and C.E.O., replacing Mr. Al Edgeworth, who retired in December 2004. Aux Sable reported record production volumes and profit margins as a result of favourable market conditions, particularly in the second half of the year, and continued growth of its injection and fee-for-service businesses.

The comparability of year-over-year results is impacted by the acquisitions of additional interests in Alliance and Aux Sable in 2003, the related financings and the required adoption of proportional accounting. Nevertheless, 2004 distributable cash of $0.883 per Class A Unit and net income of $0.74 per Class A Unit were up seven percent and 19 percent, respectively, over 2003. These record results exceeded our expectations entering 2004 and supported increases in our monthly distributions.

Looking forward, we are confident that Alliance Pipeline and AEGS will deliver stable results, and remain optimistic that Aux Sable will continue to benefit from the recent strength in NGL margins and a recent amendment to downstream heat content obligations. As a consequence, we expect Aux Sable will again contribute to distributable cash in 2005.

DISTRIBUTIONS

During 2004, Fort Chicago increased its monthly distributions twice; once in January to $0.06875 per Class A Unit and again in October to $0.0725 per Class A Unit, and paid out an aggregate of $0.83625 per Class A Unit. On an annualized basis, these aggregate increases represented a nine percent increase over the previous distribution. In January 2005, Fort Chicago further increased its monthly distribution to $0.075 per Class A Unit, or $0.90 on an annualized basis. In March 2005, we announced that the monthly

distribution would be increased again to $0.0775 per Class A Unit or $0.93 on an annualized basis. These increases are supported by the stable cash flows generated by Alliance and, more recently, AEGS, and the improved performance from our NGL business.

Fort Chicago's policy is to pay out 100 percent of distributable cash to Unitholders over time, which is not to say that we will pay out 100 percent of distributable cash generated each month. Distributions will be managed and will not be increased unless management and the Board believe that a higher distribution level is sustainable. As a consequence, any resulting distributable cash reserve will be used to sustain Fort Chicago's distributions in future. At year-end, Fort Chicago's reserve was approximately $2.4 million.

TAX ALLOCATIONS

For 2004, a Unitholder holding a Fort Chicago Class A Unit throughout the year will be allocated taxable income of approximately $0.334 per Class A Unit, representing a taxable income allocation as a percentage of cash distributions paid for 2004 of 40 percent.

CAPITAL MARKETS

2004 was another strong year for the "income trust" sector as it continued to perform better than most other sectors. New entrants and growth of existing players supported the sector's market capitalization, reaching another record level of approximately $118 billion at December 31, 2004. With over 175 income trusts listed on the TSX, this sector now represents eight percent of the total market capitalization of the TSX and represents a significant component of retail and institutional investing activity. As a result, in January 2005, Standard & Poor's announced that, by mid-year, it intends to include income trusts in the S&P/TSX Composite Index. On February 23, 2005, the federal government proposed in its Canadian Federal Budget the elimination of the 30 percent limit on foreign property that may be held by pension funds and other deferred income accounts, which, if approved, would eliminate this restriction commencing January 1, 2005. These proposals, once initiated, should support further investment and growth in our sector. At December 31, 2004, Fort Chicago's weighting in the S&P/TSX Canadian Income Fund Trust Index was 1.496 percent, down from its weighting of 2.200 percent at the beginning of the year due to a 57 percent increase in the number of income trusts included in this index, which now includes 66 income trusts.

During 2004, Fort Chicago's Class A Units performed well, increasing to $11.40 per Class A Unit at December 31, 2004, from $10.20 at December 31, 2003. Including the distributions paid of $0.83625 per Class A Unit, the total return for holding a Fort Chicago Class A Unit throughout 2004 was 21 percent, following an even stronger performance in 2003 of 34 percent. This performance ranks Fort Chicago among the top performing infrastructure income trust issuers in 2004.

2005 GUIDANCE

For 2005, Fort Chicago is currently forecasting distributable cash in the range of $0.92 to $1.00 per Class A Unit, up from previous guidance of $0.88 to $0.93 per Class A Unit, and a taxable income allocation as a percentage of cash distributions paid in the range of 70 percent to 85 percent. This forecast is based upon our best estimate regarding the expected performance of each of our businesses and market conditions generally. The range provided largely reflects our sensitivity to NGL extraction margins and movements in the Canadian dollar. Further details concerning our 2005 guidance can be found in the Investor Information section of our website – www.fortchicago.com.

OUTLOOK

Looking forward, we expect relatively stable earnings and cash flows from Alliance and AEGS, driven by their long-term transportation contracts. Aux Sable, while less predictable, is expected to perform well again in 2005, benefiting from the current favourable pricing environment for its products.

We will continue to evaluate long-term opportunities to grow and improve the financial performance of each of our businesses as well as accretive investment opportunities in new or complementary long-life assets. Fort Chicago and each of our businesses are strategically well positioned and have growth opportunities which are being actively pursued and evaluated. These include the opportunities associated with the development of the Alaskan and/or Mackenzie Delta natural gas reserves, although these are still expected to be sometime off in the future.

I would like to thank our Board of Directors, employees and advisors for the tremendous contributions they made during 2004 that helped us achieve our record results. For 2005, we remain firmly committed to providing our Unitholders with stable and growing per-unit cash distributions.

Respectfully,

Stephen H. White
President and Chief Executive Officer

March 16, 2005

ALLIANCE PIPELINE

The comments below, dated March 16, 2005, relate to the Alliance Pipeline, which is comprised of Alliance Pipeline Limited Partnership ("Alliance Canada") and Alliance Pipeline L.P. ("Alliance U.S.") (collectively, the "Pipeline" or "Alliance"). All financial information is in Canadian dollars unless otherwise noted and, as it relates to Alliance's financial results, has been extracted from the audited combined financial statements of Alliance, which were prepared in accordance with Generally Accepted Accounting Principles in Canada. They do not include the assets, liabilities, revenues and expenses of the partners, nor do they reflect income tax as this is allocated to the partners. Certain forward-looking statements and information are also provided. Forward-looking statements and information, by their nature, involve risk and uncertainty, which may cause actual results to differ materially from those expressed or implied herein.

SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

(CDN $ MILLIONS, EXCEPT WHERE NOTED)	2004	2003
Revenues	794	838
Administrative and operating costs	159	148
Depreciation	207	214
Interest and other finance charges	214	225
Net income (before taxes)	214	251
Cash provided by operating activities	366	358
Distributions paid, net of capital holdbacks	233	241
Average daily throughput volume (billion cubic feet per day)	1.581	1.588
Total assets	4,598	4,920
Total long-term liabilities	2,780	3,038
Partners' equity	1,608	1,688

OVERVIEW

The Alliance Pipeline consists of an approximate 3,000-kilometre integrated, high-pressure natural gas transmission system, an approximate 690-kilometre lateral pipeline system and related infrastructure. The Canadian portion of the Pipeline is owned and operated by Alliance Canada. The United States portion of the Pipeline is owned and operated by Alliance U.S. Fort Chicago holds a 50 percent interest in Alliance and, together with Enbridge Income Fund and Enbridge Inc., jointly controls Alliance.

The Pipeline, which commenced operations in December 2000, is designed to transport 1.325 billion cubic feet per day ("bcf/d") of liquids rich natural gas on a firm-service basis from Northwestern Alberta and Northeastern British Columbia to delivery points near Chicago, Illinois, where the Pipeline connects with two local natural gas distribution systems and five interstate natural gas pipelines. These interconnections provide access to markets in the Midwestern and Northeastern U.S. and Eastern Canada.

The Pipeline also connects to the Aux Sable Liquid Products L.P. ("Aux Sable") natural gas liquids extraction and fractionation plant located in Channahon, Illinois, near the terminus of the Alliance Pipeline. Alliance and Aux Sable have entered into agreements whereby Aux Sable is permitted to extract natural gas liquids from the liquids rich gas stream transported on the Alliance Pipeline to support its NGL business and to ensure downstream pipeline heat content requirements are met. In exchange for the natural gas liquids extracted, shippers on the system receive natural gas on an energy equivalent basis.

By providing this natural gas transportation service, the Pipeline further integrates North American natural gas markets and offers shippers: (i) competitive firm transportation rates that can be lowered further using available additional transportation capacity in excess of firm capacity; (ii) a single pipeline service providing a direct transportation route to the major natural gas distribution systems near Chicago, Illinois; and (iii) high pressure, reliable pipeline technology and the ability to transport rich gas, which improves efficiency and lowers the per-unit transportation cost of the pipeline.

RESULTS OF OPERATIONS

The Alliance Pipeline continues to report strong financial results, and operations continued to be reliable and stable. In addition to meeting its contracted daily firm service shipping requirements, shippers continue to utilize substantially all of the authorized overrun service ("AOS") available on the Pipeline. Transportation deliveries, including utilized AOS, averaged 1.581 bcf/d (19.3 percent in excess of firm capacity) compared to 1.588 bcf/d (20 percent in excess of firm capacity) in 2003. Additional maintenance in 2004 accounts for the slight drop in AOS.

Alliance has firm transportation services contracts, with initial terms ending in 2015, with a group of 33 shippers. The transportation service contracts obligate each shipper to pay monthly demand charges based on that shipper's contracted volume, regardless of volumes actually transported on the Pipeline. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the Pipeline, to transport volumes of natural gas up to the shipper's contracted capacity that were properly scheduled for

delivery. No demand charge credits were incurred during the three-year period ended December 31, 2004.

During 2004, Alliance constructed new receipt points on the lateral pipeline system and upgraded certain existing stations, adding an additional 53 million cubic feet per day ("mmcf/d") of receipt capacity to the Alliance system. Receipt point capacity has been increased by approximately 798 mmcf/d since the commencement of pipeline operations. Construction activity is currently in progress that will add a further 267 mmcf/d of receipt capacity to the lateral pipeline system in early 2005. Alliance also completed in 2004 the third year of a three-year baseline inspection program of the mainline and lateral pipeline systems. The inspections did not result in any material anomalies being detected and confirmed the integrity of the pipeline system.

For the year ended December 31, 2004, revenues decreased by $44 million to $794 million compared with $838 million for 2003, which primarily reflects the appreciation of the Canadian dollar combined with the decrease in cost of service from 2003, which included the cumulative effect of a redetermination of the investment base and the adjustment for the return on equity and allowance for Partners' taxes, each of which are recoverable from shippers in the transportation tolls.

Net income before taxes for the year ended December 31, 2004, was $214 million, compared with net income before taxes of $251 million for the year ended December 31, 2003. Net income reflects the after tax return on equity applied to the investment base. The decrease in net income for the year ended December 31, 2004, relates to the appreciation in the Canadian dollar ($9.2 million) and certain adjustments included in net income for 2003. In particular, in 2003 the final construction cost of the pipeline was re-evaluated and the allowed U.S. after tax rate of return on equity was increased to 10.79 percent from 10.69 percent, resulting in a cumulative adjustment of US $1.6 million to the equity portion of the allowance for funds used during construction. Net income in 2003 also reflects a $22.9 million cumulative effect of the adjustment to the after tax return on equity related to a redetermination of the investment base. During the year ended December 31, 2004, the rates used to calculate the equity return were unchanged from the 11.25 percent and 10.79 percent for the Canadian and U.S. investment base, respectively. The absolute annual return realized on the rate base will decline over time as the rate base is depreciated; however, ongoing capital additions to the investment base will offset the rate of decline to some extent.

Cash provided by operating activities was $366 million for the year ended December 31, 2004, compared to $358 million for the year ended December 31, 2003. The increase in cash flow from operations for the current year, compared to the prior year, relates primarily to an increase in the amount of negotiated depreciation recovered in the toll, partially offset by a reduction in current and prior year over recoveries and a stronger Canadian dollar.

Additions to property, plant and equipment for the year ended December 31, 2004 decreased to $29 million compared with $45 million for 2003. The decrease in additions to property, plant and equipment compared to the prior year reflects a more modest capital program undertaken during 2004, compared with 2003, which included expenditures related to the construction of the North Kaybob lateral system and the acquisition of spare compressor jets.

Alliance made distributions to its partners (including Fort Chicago) net of capital expenditure holdbacks in the aggregate amount of $233 million in 2004 compared with $241 million in 2003. This decrease is primarily attributable to the one-time payment of US $10.2 million arising from the Minnesota sales tax refund received in 2003 and a $7.5 million negative impact of a stronger Canadian dollar. Partially offsetting these factors was an increase in the return of capital resulting from an increase in negotiated depreciation in the toll, a reduction in amounts withheld for capital expenditures and the return on equity adjustment reported in 2003 and collected in 2004. On January 27, 2005, Alliance paid a $56.7 million distribution to its partners (including Fort Chicago).

In December 2004, Al Edgeworth, President and C.E.O. of Alliance, retired. Al played a key role in the development, construction and operation of Alliance and was a significant factor in the success of Alliance. In March, Murray Birch, a former Alliance Board member with over 25 years of experience in the energy industry, was appointed President and C.E.O.

OUTLOOK

On October 29, 2004, Alliance filed its 2005 tolls with the National Energy Board in Canada and on November 30, 2004, it filed its rates with the Federal Energy Regulatory Commission in the United States following consultation with shippers. Alliance Canada's 2005 tolls will increase four percent effective January 1, 2005, primarily reflecting the fact that Alliance Canada will commence recovering current income taxes in 2005. Alliance U.S.'s 2005 rates will increase two percent effective January 1, 2005, reflecting a scheduled increase in depreciation.

Alliance's 2005 capital expenditure budget of approximately $23 million is primarily dedicated to scheduled maintenance of Alliance's compressor units and systems. However, approximately $6 million will be spent to enhance the gas coolers at the Windfall compressor station, which will improve system efficiency and provide modest increases to the Pipeline's throughput.

Alliance will continue to focus its efforts in 2005 on managing system assets and infrastructure, and further developing its operational procedures and processes with a view to maximizing available transportation capacity and the competitiveness of its rates. Over the longer term, Alliance is well positioned to cost-effectively expand its pipeline system through the installation of additional compression. This expansion will be driven by the desire of producers to transport additional volumes of Western Canadian Sedimentary Basin or Northern gas to Midwestern or Eastern markets.

ALBERTA ETHANE GATHERING SYSTEM

The comments below, dated February 25, 2005, relate to the Alberta Ethane Gathering System L.P., which owns the Alberta Ethane Gathering System (the "Pipeline" or collectively "AEGS"). All historical financial information has been prepared on a pro forma basis, as if AEGS owned the Pipeline during the historical periods presented, is in Canadian dollars, and is based on unaudited financial information provided by the former owners of the Pipeline. This pro forma information does not include the assets, liabilities, revenues and expenses of the partners, nor does it reflect income tax as this is allocated to the partners. Certain forward-looking statements and information are also provided. Forward-looking statements and information, by their nature, involve risk and uncertainty, which may cause actual results to differ materially from those expressed or implied herein.

SELECTED PRO FORMA FINANCIAL AND OPERATING HIGHLIGHTS (UNAUDITED)

(CDN $ MILLIONS, EXCEPT WHERE NOTED)	2004	2003
Revenues	34.8	31.8
Operating costs	11.8	9.4
Earnings before interest, taxes, depreciation and amortization ("EBITDA")(1)	23.0	22.4
Toll volume – barrels per day (bbls/d)	297,736	295,152

(1) EBITDA is not a standard measure under generally accepted accounting principles in Canada and may not be comparable to similar measures presented by other entities. EBITDA represents the pro forma historical cash available for distribution and is an important measure used to assess the cash-flow generating capability of AEGS. Going forward, EBITDA can be reconciled to net income before tax by deducting interest, depreciation and amortization.

OVERVIEW

AEGS is a key component of Alberta's energy infrastructure industry and is of particular importance to Alberta's world-scale natural gas liquids and petrochemical industries. On December 22, 2004, Fort Chicago acquired 100 percent of AEGS for an aggregate purchase price of approximately $273.3 million.

AEGS is a 1,324-kilometre pipeline that transports pure ethane within Alberta from various ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta. AEGS is an integrated system that has interconnections with an underground storage site and an export pipeline system, although virtually all of the ethane transported is consumed in Alberta. The Pipeline is made up of three legs (east and west legs and a bi-directional north leg) that have an aggregate design capacity of 322,000 bbls/d.

The Pipeline delivers substantively all of the ethane feedstock requirements for NOVA Chemicals Corporation's ("NOVA Chemicals") and Dow Chemical Canada Inc.'s ("Dow Chemical") Joffre ethylene facilities and approximately 50 percent of the ethane feedstock requirements for Dow Chemical's ethylene facilities located at Fort Saskatchewan. Correspondingly, all major ethane producers in Alberta rely upon AEGS as their primary means of ethane distribution.

AEGS currently has four shippers, each of which are either major ethane producers or consumers, and all of which have substantive energy infrastructure and/or petrochemical investments in Alberta. The AEGS shippers are NOVA Chemicals, Dow Chemical, Inter Pipeline Fund, and BP Canada Energy Company ("BP Canada"). Each shipper has entered into a long-term, take-or-pay ethane transportation agreement ("ETA") or has assumed, through an assignment, all rights and obligations under an existing ETA. The ETAs, which extend to December 31, 2018, provide for a minimum revenue stream based on specified committed volumes, the recovery of all operating costs, and the right for each shipper to transport ethane on AEGS up to their committed volumes. AEGS holds a long-term storage contract with the Fort Saskatchewan Storage Joint Venture, operated by BP Canada, which allows shippers to store up to 700,000 barrels of ethane in underground salt caverns located near Fort Saskatchewan, Alberta. The term of the ethane storage contract extends through the term of the existing ETAs.

AEGS manages all commercial operations of the Pipeline, while NOVA Chemicals has been retained to perform all physical operations.

RESULTS OF OPERATIONS

Historically, the Pipeline has delivered fairly stable, but growing, revenues and EBITDA. For 2004, total revenues, which include toll revenues plus operating cost recoveries, were $34.8 million (2003 – $31.8 million). The increase in 2004 revenues is primarily due to non-recurring operating costs for the implementation of a pipeline integrity management system, as well as other related maintenance activities. Toll volumes increased approximately one percent and accounted for the balance of the increase.

Given that operating costs flow through to the shippers, EBITDA is driven by reported toll revenue. For 2004, EBITDA increased to $23.0 million (2003 – $22.4 million), which is in line with the higher levels of firm and interruptible ethane transported during 2004.

OUTLOOK

Looking forward, AEGS will focus on maintaining high levels of operational efficiency, including seeking out additional growth opportunities to support any increases in demand for ethane from Alberta's petrochemical industry. Potential sources of additional ethane to support such growth include: the installation of additional deep-cut facilities at existing extraction facilities, Alberta's oil-sands bitumen upgrading projects, which could produce ethane as a by-product, and additional volumes of natural gas from Canada's Mackenzie Delta and/or from Alaska.

AUX SABLE

The comments below, dated February 25, 2005, relate to Aux Sable, which is comprised of Aux Sable Liquid Products L.P., Aux Sable Canada L.P. and Alliance Canada Marketing L.P. (collectively, "Aux Sable"). All financial information is in Canadian dollars unless otherwise noted and, as it relates to Aux Sable's financial results, has been extracted from the audited combined financial statements of Aux Sable, which were prepared in accordance with Generally Accepted Accounting Principles in Canada. They do not include the assets, liabilities, revenues and expenses of the partners, nor do they reflect income tax as this is allocated to the partners. Certain forward-looking statements and information are also provided. Forward-looking statements and information, by their nature, involve risk and uncertainty, which may cause actual results to differ materially from those expressed or implied herein.

SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

(CDN $ MILLIONS, EXCEPT WHERE NOTED)	2004	2003
Revenues	938	597
Costs of goods sold	879	597
General, administrative and other	15	12
Interest and other finance	3	5
Earnings before tax, depreciation and amortization ("EBTDA")	41	(17)
Net income (loss) before tax	20	(40)
Average daily NGL sales volumes (thousand barrels)		
Ethane – indigenous	35.7	24.3
Propane plus – indigenous	20.3	18.5
Propane plus – injections	8.4	6.7
Propane plus – marketing	5.8	0.9
	70.2	50.4
Distributions (support payments) made during the year, net	5.2	(5.6)
Total assets	598	620
Total long-term debt	14	27
Partners' equity	502	524

(1) EBTDA is not a standard measure under Generally Accepted Accounting Principles in Canada and may not be comparable to similar measures presented by other entities. EBTDA is an important measure used to assess the source and sustainability of Aux Sable's cash distributions. EBTDA is reconciled to net income before tax by deducting depreciation and amortization.

OVERVIEW

Aux Sable operates a natural gas liquids ("NGL") extraction and fractionation business (the "NGL Business"), which is jointly controlled by Fort Chicago (42.7 percent ownership) and Enbridge Inc. (42.7 percent ownership). The NGL Business consists of: (i) a world-scale NGL extraction and fractionation facility capable of processing up to 2.1 billion cubic feet of natural gas per day and recovering up to 100,000 barrels per day of NGL consisting of ethane, propane, normal butane, iso-butane and natural gasoline; (ii) storage and distribution facilities; (iii) approximately 76 million cubic feet per day of long-term firm transportation capacity on the Alliance Pipeline; and (iv) NGL injection facilities connected to the Alliance Pipeline in Alberta and British Columbia.

The plant, which went into service in December 2000, is a key facility that manages the higher heat content levels associated with the energy-rich natural gas flowing in the Alliance Pipeline within specified parameters in order to meet downstream natural gas heat content requirements. The heat content requirement with one downstream interconnection was amended in 2004 and has significantly reduced Aux Sable's exposure to negative extraction margins, going forward. The plant is strategically located in Channahon, Illinois, at the terminus of the Alliance Pipeline and close to major markets that are frequently NGL supply-constrained in the first and fourth quarters of each year. Today, Aux Sable is a significant supplier of propane and ethane to the Midwestern U.S., particularly in Illinois and its neighbouring states. Commercial arrangements are in place to sell and distribute all of its production, the majority of which are long-term in nature. These arrangements include exchange agreements, which provide access to U.S. Gulf Coast markets. The Western Canadian NGL injection facilities and firm transportation capacity on the Alliance Pipeline are an important part of Aux Sable's business as they provide access to additional NGL and natural gas supply for Aux Sable's fuel and energy make-up requirements.

The NGL produced by Aux Sable are an integral component of numerous products used directly as energy products (including home and industrial heating, crop drying, cooking, and motor fuel), as feedstock for the petrochemical industry (for the production of ethylene, propylene, butadiene and other

derivatives, which are used to produce products such as polyethylene, rubber, plastics, solvents, and foam materials) and crude oil refining (for gasoline and gasoline blending). As a consequence, overall economic activity and weather conditions are strong influences on the demand for NGL. Crude oil and natural gas prices, commodity inventory levels, as well as seasonal factors, strongly influence NGL extraction margins.

RESULTS OF OPERATIONS

For 2004, Aux Sable facilities operated reliably with little unplanned downtime, and benefited significantly from improved market conditions. Aux Sable also continued to deliver excellent safety results and outstanding environmental performance.

Financial results for 2004 improved significantly over 2003, with revenues increasing by $341 million to $938 million due to improved market conditions that supported higher NGL production and sales volumes, and improved NGL extraction margins, which were particularly strong in the second half of 2004. Aux Sable also benefited from increased injection and fee-for-service volumes. In July, changes to downstream heat content requirements largely eliminated Aux Sable's exposure to extract NGL at negative extraction margins. For the year ended December 31, 2004, Aux Sable posted net income of $20 million (2003 – net loss of $40 million), after natural gas and NGL hedge losses of $38.9 million (2003 – $1.4 million), while EBTDA was $41 million, up $58 million over the prior year.

Aux Sable's average gas price for 2004 increased by five percent to US $5.83 per mmbtu from US $5.56 per mmbtu in 2003, while average WTI spot crude prices, which strongly influence NGL prices, increased by 33 percent from US $31.16 to US $41.40 over the same period. NGL sales volumes increased 39 percent to 70.2 mbbls/d in 2004 from 50.4 mbbls/d in 2003. Favourable market conditions resulted in no curtailments of NGL production in 2004.

Aux Sable continues to grow its profitable NGL injection business, which has made a significant contribution to earnings and reduced earnings volatility. NGL injections increased by 25 percent to 8,400 barrels per day in 2004, compared to 6,700 barrels per day in 2003. For the fourth quarter of 2004, injections increased by 32 percent to 9,600 barrels per day versus 7,300 barrels per day for the same period in 2003. Aux Sable also entered into several significant multi-year, fee-for-service arrangements during the year, which are expected to add to earnings and cash flow starting in 2005.

Capital expenditures for 2004 were $4.6 million compared with $3.5 million for 2003. The 2004 expenditures were funded from cash flow, with roughly half being in respect of return generating projects.

In 2004, Aux Sable initiated the payment of regular cash distributions to its owners. During the year ended December 31, 2004, aggregate distributions, net of marketing support payments, paid by Aux Sable were $8.5 million. Subsequent to year-end and up to the date hereof, Aux Sable has distributed, net of marketing support payments, an additional $11.1 million.

Aux Sable's business is financed almost entirely with owner equity. Credit facilities are in place to support modest working capital requirements and the issuance of letters of credit up to an aggregate amount of US $45 million in the U.S. and $7.0 million in Canada. During 2004, the revolving credit facilities were utilized mainly to post letters of credit. As at December 31, 2004, Aux Sable had an aggregate of $16.3 million letters of credit issued and no borrowings under these facilities. On January 31, 2005, Aux Sable's U.S. credit facility was amended to, among other things, replace a covenant that restricted distributions to 50 percent of earnings before interest, taxes, depreciation and amortization ("EBITDA") with a covenant that permits distributions provided EBITDA plus (minus) owner contributions (distributions), since September 1, 2003, being the inception of the facility, is equal to or greater than US $5 million.

Hedging activity by Aux Sable is conducted under a hedging policy established in August, 2003. All hedging decisions are made by a Risk Management Committee comprised of representatives from the Board of Directors of Aux Sable's Managing General Partner. For 2004, approximately 43 percent of Aux Sable's production was hedged. As at the date hereof, approximately 17 percent of Aux Sable's 2005 production has been hedged. For subsequent years, Aux Sable remains unhedged as the forward markets for NGL are not well developed in terms of their depth and liquidity.

OUTLOOK

Aux Sable remains committed to: (i) growing its NGL injection and fee-for-service components of its business; (ii) maintaining high standards of safety and environmental performance; and (iii) optimizing plant efficiencies. Aux Sable will also look to expand its NGL distribution and storage options. These initiatives, combined with an active hedging program focused on meeting or exceeding the 2005 budget, are expected to bolster Aux Sable's financial and operating performance and thereby reduce earnings volatility. For 2005, it is expected that NGL extraction margins and NGL injection margins will moderate from the levels seen in the last half of 2004, but will remain significantly higher than those experienced in 2003.

anagement's
discussion
nd analysis

This Management's Discussion and Analysis ("MD&A") dated February 25, 2005 provides a review of the significant events and transactions that impacted Fort Chicago's performance during 2004, relative to 2003. Certain forward-looking statements and information are provided. Forward-looking statements and information, by their nature, involve risk and uncertainty, which may cause actual results to differ materially from those expressed or implied herein. This MD&A should be read in conjunction with the consolidated financial statements of Fort Chicago for the years ended December 31, 2004 and 2003, as well as the profiles of Alliance, Aux Sable and AEGS, each of which is included in the 2004 Annual Report. Capitalized terms used herein and not otherwise defined have the same meanings attributed to them in the December 31, 2004 consolidated financial statements. All financial information is in Canadian dollars unless otherwise noted and, as it relates to Fort Chicago's financial results, has been extracted from its annual audited or quarterly unaudited consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP"). Financial information pertaining to Alliance and Aux Sable reflects Fort Chicago's proportionate share unless otherwise noted. Fort Chicago's 2004 results are not readily comparable to its 2003 results due to the acquisition of additional interests in Alliance and Aux Sable that resulted in their being proportionately consolidated effective April 1, 2003. Prior to this date, they were accounted for using the equity method. Additional information concerning the Partnership is available from SEDAR at www.sedar.com or on the Partnership's website at www.fortchicago.com.

OVERVIEW

Businesses

Fort Chicago is an energy focused limited partnership with two principal business segments – a pipeline transportation segment and an NGL extraction segment – which own and operate high quality, long-life assets that are uniquely positioned to provide Unitholders with relatively stable cash distributions and potential growth in future.

Pipeline businesses represent approximately 93 percent of Fort Chicago's total assets and are comprised of a 50 percent interest in Alliance and a 100 percent interest in AEGS. Each of Alliance and AEGS are stable cash flow generators that are supported by long-term, take-or-pay transportation agreements. Alliance owns and manages an integrated, high-pressure natural gas pipeline that stretches approximately 3,000 kilometres across North America. With an extensive gathering system, Alliance delivers natural gas from the gas-rich regions of British Columbia and Alberta to delivery points near Chicago, Illinois, a major natural gas market hub. The system is capable of transporting 1.325 billion cubic feet per day of liquids-rich natural gas on a firm-service basis. AEGS, which was acquired by Fort Chicago on December 22, 2004 for $273.3 million, is a key component of Alberta's energy infrastructure and of particular importance to Alberta's world-scale NGL extraction and petrochemical industries. AEGS is an integrated 1,324-kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta, and has interconnections with an underground storage site and an export pipeline system. The aggregate design capacity of AEGS is 322,000 bbls/d.

The NGL business, which represents approximately seven percent of Fort Chicago's assets, is comprised of a 42.7 percent interest in Aux Sable, which owns and manages: (i) a world-scale NGL extraction and fractionation facility near the terminus of the Alliance Pipeline, capable of recovering up to 100,000 bbls/d of ethane, propane, normal butane, iso-butane and natural gasoline; (ii) storage, downstream NGL pipelines and loading facilities; (iii) NGL injection facilities in Alberta and British Columbia; and (iv) long-term firm natural gas transportation capacity on the Alliance Pipeline. Cash flows generated by this business are more cyclical, but can be significant, as was the case during the second half of 2004.

Strategy

Strategically, Fort Chicago is firmly committed to actively managing and growing its existing businesses and to making targeted accretive investments in long-life, energy related infrastructure assets, such as AEGS, that will provide additional diversity and contribute toward delivering Unitholders stable and growing distributions.

Key Achievements

2004 was a rewarding year for Fort Chicago and its Unitholders who earned a total return of 21 percent based on an investment made at the closing price on December 31, 2003. While lower interest rates contributed toward this performance, there are a number of noteworthy achievements that also contributed to this result. These include:

- Record reported distributable cash and earnings;
- Continued growth in distributions, which were increased twice during the year from an annualized rate of $0.80 to $0.87 per Class A Unit;

ASSET MIX

- ☐ Improved fundamentals in its NGL business:
  - Record NGL production levels and margins
  - Continued growth of NGL injection business
  - Established the new NGL fee-for-service arrangements
  - Initiated paying regular distributions to its owners;
- ☐ Stable performance from Alliance:
  - Exceeded operational reliability and throughput targets
  - Delivered expected earnings and cash distributions
  - Completed additional lateral supply expansions
  - Proceeded with a five-megawatt electrical generation project utilizing waste heat from the Kerrobert compressor station
  - Secured a new downstream interconnection agreement that relaxes previous downstream heat content specifications and largely eliminates Aux Sable's exposure to negative extraction margins;
- ☐ Acquisition of AEGS on December 22, 2004; and
- ☐ Established new $300 million, three-year committed revolving credit facility on attractive terms to support operating requirements, including acquisitions.

FINANCIAL AND OPERATING HIGHLIGHTS

($ THOUSANDS, EXCEPT WHERE NOTED)	2004	2003(1)	2002(1)
Operating Highlights			
Average daily volumes			
Pipeline volumes (100%)			
Alliance – billion cubic feet per day (bcf/d)	1.581	1.588	1.481
AEGS – thousand barrels per day (mbbls/d)(2)	297.7	–	–
NGL (mbbls/d)	70.2	50.4	48.8
Financial Results			
Revenues(3)	776,171	506,699	220
Net income	77,623	53,372	25,734
Net income per Class A Unit			
Basic	0.74	0.62	0.35
Diluted	0.73	0.62	0.35
Distributions(4)			
Distributable cash(4)	92,735	73,274	44,889
Per Class A Unit(4)	0.883	0.822	0.608
Distributions paid or payable(4)	87,871	67,117	48,748
Per Class A Unit(4)	0.836	0.750	0.660
Distributable cash reserve(4)	2,354	(2,510)	(8,667)
Capital expenditures			
Growth(4)	15,434	16,164	–
Maintenance & sustaining(4)	727	1,032	7
Taxable income (losses) allocated to Unitholders per Class A Unit(4, 5)	0.334	(0.190)	(0.340)
Financial position			
Cash & short-term investments	34,982	56,503	11
Total assets	2,896,001	2,765,948	801,946
Senior long-term debt & capital leases	1,780,104	1,649,226	251,208
Subordinated convertible debt	132,605	203,280	–
Partners' equity	646,992	607,535	469,720
Total enterprise value(4)	3,592,495	3,218,157	986,454
Class A Units			
Units outstanding at year-end	109,786,540	101,142,290	74,372,673
Average daily volume (Units)	209,337	173,236	107,784
Price per Unit – close	11.40	10.20	8.25
Market capitalization(4)	1,251,567	1,031,651	613,575

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.
(2) Financial results for AEGS are for the period commencing December 22, 2004. Operating results for AEGS are unaudited and are for the year ended December 31, 2004.
(3) Includes foreign exchange gains and losses.
(4) This item is not a standard measure under GAAP in Canada and may not be comparable to similar measures presented by other entities. See section entitled Non-GAAP Financial Measures contained below.
(5) Based on Units being held throughout 2004.

RESULTS OF OPERATIONS

Overall

In 2002 and 2003, Fort Chicago successfully completed several accretive transactions involving the acquisition of additional interests in Alliance and Aux Sable and the related financings undertaken to repay the bridge acquisition facilities, which had a significant impact on its reported earnings and distributable cash. These acquisitions also resulted in Alliance and Aux Sable being proportionately consolidated, rather than equity accounted, effective April 1, 2003. As a consequence, a comparison of Fort Chicago's 2004 financial results to those of 2003 is significantly impacted by these transactions and the associated change in accounting. In most cases, it accounts for substantially all of the change. The table below summarizes each business segment's contribution to the year-over-year change in Fort Chicago's reported results. Explanations regarding the changes in each segment's reported results are contained within the review of each segment's results below.

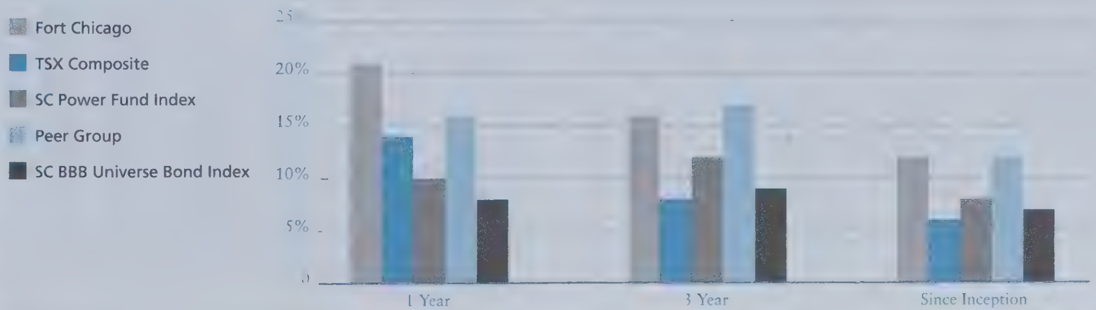
SELECTED FINANCIAL HIGHLIGHTS

		YEAR-OVER-YEAR INCREASE (DECREASE)				
		PIPELINE BUSINESS				
	2003(1)	ALLIANCE	AEGS	NATURAL GAS LIQUIDS	PARTNERSHIP	2004
Revenues(2)	506,699	85,260	1,062	210,425	(21,816)	776,171
Natural gas, NGL & transportation(2)	178,244	–	–	184,756	–	357,541
Operations & maintenance	38,056	15,384	366	471	–	54,277
Depreciation & amortization	88,850	25,943	348	365	(3,077)	112,429
Interest & other finance	109,527	23,893	–	(3)	(4,353)	129,064
General & administrative	26,904	7,875	44	1,890	1,129	37,842
Net income before taxes & equity income	65,118	12,165	304	22,946	(15,515)	85,018
Equity income – first quarter	13,928	(16,777)	–	3,033	(184)	–
Net income before taxes	79,046	(4,612)	304	25,979	(15,699)	85,018
Taxes	25,674	–	–	–	–	7,395
Net income	53,372	–	–	–	–	77,623
Distributable cash	73,274	5,233	652	19,735	(6,159)	92,735

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.
(2) Net of $5.4 million of inter-company Alliance revenue and Aux Sable transportation costs that eliminate on consolidation.

The Partnership generated distributable cash of $92.7 million or $0.883 per Class A Unit for the year ended December 31, 2004 compared with $73.3 million or $0.822 per Class A Unit for the year ended December 31, 2003. This seven percent per Unit increase is primarily attributable to the following: (i) a $5.2 million increase in distributions from Alliance due largely to the return-on-equity adjustment reported in 2003 and collected and distributed in 2004; (ii) a $19.7 million improvement from Aux Sable attributable to improved performance and a higher ownership interest that collectively contributed $7.0 million compared with support payments of $12.8 million in 2003; (iii) $0.7 million from the December 22, 2004 acquisition of AEGS; and (iv) a $4.4 million decline in Partnership interest costs resulting from the 2003 refinancing of its acquisition bridge credit facility. These increases in distributable cash were partially offset by: (i) a $9.8 million reduction in non-recurring realized

FORT CHICAGO TOTAL RETURNS
(December 31, 2004)



foreign exchange gains attributable to the Partnership's U.S. denominated bridge acquisition credit facility that was repaid in 2003; (ii) a $1.1 million increase in Partnership administration costs; and (iii) a higher weighted average number of Class A Units outstanding in 2004 due primarily to the conversion of $79.9 million of Series A Convertible Debentures and the issuance of $210.5 million of Class A Units in 2003 to refinance bridge acquisition debt.

Net income for the year ended December 31, 2004 was $77.6 million or $0.74 per Class A Unit in comparison to $53.4 million or $0.62 per Class A Unit for the year ended December 31, 2003. This increase in net income reflects the following: (i) a $26.0 million improvement in the NGL business; and (ii) a $18.3 million reduction in taxes due primarily to a future income tax liability reversal (relating to the utilization for Canadian toll setting purposes of certain loss carry-forwards that were allocated to Alliance's previous owners). These positive factors were offset, in part, by: (i) a $15.7 million decrease in Partnership earnings resulting from a $21.8 million decrease in non-recurring foreign exchange gains largely attributable to the Partnership's U.S. denominated bridge acquisition financing debt that was repaid in 2003; (ii) a $4.6 million decline in net income from Alliance; and (iii) a higher weighted average number of Class A Units outstanding in 2004 due primarily to the conversion of $79.9 million of Series A Convertible Debentures and the issuance of $210.5 million of Class A Units in 2003 to refinance bridge acquisition debt.

Fort Chicago – Corporate

FINANCIAL HIGHLIGHTS – CORPORATE

($ THOUSANDS)	2003[1]	2004
Revenues	17,991	(3,825)
Depreciation & amortization	5,564	2,487
Interest & other finance	24,734	20,381
General & administrative	4,940	6,069
Net income before taxes & equity income	(17,247)	(32,762)
Equity income – first quarter	184	–
Net income before taxes	(17,063)	(32,762)

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.

For the year ended December 31, 2004, revenues decreased by $21.8 million, relating primarily to non-recurring foreign exchange gains associated with the 2003 U.S. denominated bridge acquisition financing that was repaid in 2003.

Depreciation and amortization decreased by $3.1 million as a result of fully amortizing the Partnership's senior debt refinancing costs in 2003.

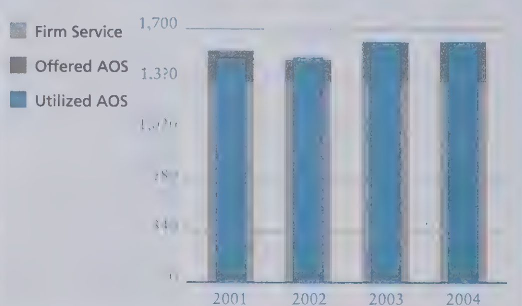
Interest and other finance charges decreased by $4.4 million due to the 2003 refinancing of its acquisition bridge credit facility, together with the appreciation in the Canadian dollar.

General and administrative costs increased by $1.1 million to $6.1 million in 2004. This increase primarily relates to the absence of a US $1.0 million one-time termination fee received in 2003 in respect of Portland Natural Gas Transmission System, and $0.9 million attributable to increased staffing, performance-based compensation costs, and advisory costs. These increases were partially offset by a reduction in acquisition due diligence costs of $1.1 million.

Pipeline Businesses

Alliance Pipeline. The table on the next page highlights Fort Chicago's proportionate share of Alliance's results for the years ended December 31, 2004 and 2003, as well as the impact associated with the 2003 acquisitions of additional interests in Alliance, and the resulting change in accounting. The balance of the year-over-year change, labelled as "Other," is reviewed below.

ALLIANCE UTILIZATION CONSISTENTLY EXCEEDS FIRM CAPACITY
(mmcf/d)



FINANCIAL HIGHLIGHTS – ALLIANCE

		YEAR-OVER-YEAR INCREASE (DECREASE)		
($ THOUSANDS)	2003	PROPORTIONATE CONSOLIDATION AND CHANGE IN OWNERSHIP	OTHER	2004
Revenues[1]	312,167	105,009	(19,749)	**397,427**
Operations & maintenance	37,580	12,459	2,925	**52,964**
Depreciation & amortization	80,261	27,697	(1,754)	**106,204**
Interest & other finance	83,378	28,516	(4,623)	**107,271**
General & administrative	18,320	6,324	1,551	**26,195**
Net income before taxes & equity income	92,628	30,013	(17,848)	**104,793**
Equity income – first quarter	16,777	(16,777)	–	**–**
Net income before taxes	109,405	13,236	(17,848)	**104,793**
Distributions, prior to withholding for capital expenditures	113,836	7,727	(2,494)	**119,069**

(1) Revenues include $16.1 million (2003 – $10.7 million) of transportation revenue from the NGL business that eliminates on consolidation.

Alliance has firm service transportation services contracts, with initial terms ending in 2015, with a group of 33 shippers. The transportation service contracts obligate each shipper to pay monthly demand charges based on their contracted firm volume, regardless of volumes actually transported. These transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including depreciation and debt financing costs, and an allowed return on equity of approximately 11 percent. The portion of such costs recovered each year is based on the percentage of the firm transportation capacity contracted. For years ended 2004 and 2003, 100 percent of the firm capacity was contracted.

In 2004, Alliance continued to perform in a reliable manner. Transportation deliveries, including utilized AOS, exceeded its firm service shipping capacity of 1.325 bcf/d, averaging 1.581 bcf/d (19.3 percent in excess of firm capacity) compared with 1.588 bcf/d (20 percent in excess of firm capacity) in 2003. Additional planned maintenance outages account for the slight drop in AOS. Volumes in excess of firm capacity have no impact on Alliance's financial results of operations, but serve to reduce the per-unit transportation cost for shippers. As a consequence, changes in Alliance's cost of service and AOS have no impact on Alliance's net income or distributions, each of which are based solely on the availability of firm capacity on the pipeline.

Outside of the impact associated with the acquisition of additional interests, the significant other factors impacting Alliance's year-over-year results relate to: (i) the stronger Canadian dollar; (ii) the 2003 adjustment resulting from the cumulative effects of an increase in the allowed U.S. after-tax, rate of return on equity from 10.69 percent to 10.79 percent and a re-determination of the investment base, each of which affected reported revenues and net income; and (iii) a reduction in future income taxes, the majority of which relates to a future income tax liability reversal resulting from the utilization, for Canadian toll setting purposes, of certain loss carry-forwards that were allocated to Alliance's previous owners.

Overall, Alliance's net income before taxes decreased by $4.6 million compared with 2003, reflecting appreciation in the Canadian dollar ($4.6 million) and the cumulative adjustment to the rate base reported in the fourth quarter of 2003 ($11.4 million), partially offset by the benefit associated with an increased ownership ($13.2 million).

Distributions from Alliance, before capital expenditure holdbacks, in respect of the year ended December 31, 2004 totalled $119.1 million, up $5.2 million over 2003 distributions. The increase in distributions received from Fort Chicago relates to its increased ownership of Alliance and an underlying increase in distributions from Alliance due mainly to the distribution of the return-on-equity adjustment reported in 2003 and collected in 2004, partially offset by the appreciation in the Canadian dollar.

Alliance's capital expenditures in 2004 were $14.3 million versus $15.8 million in 2003. This decrease reflects a more modest capital program undertaken during 2004, compared with 2003, which in 2003 included expenditures related to the construction of the North Kaybob lateral system and the acquisition of spare compressor jets.

Following consultation with shippers, on October 29, 2004, Alliance filed its 2005 tolls with the National Energy Board in Canada and on November 30, 2004, it filed its rates with the Federal Energy Regulatory Commission in the United States. Alliance Canada's 2005 toll will increase four percent to $0.83/mcf effective January 1, 2005, primarily reflecting the fact that Alliance Canada will commence recovering current income taxes in 2005. Alliance U.S.'s 2005 rates will increase two percent to US $0.54/mcf effective January 1, 2005, reflecting a scheduled increase in depreciation.

For additional discussion of Alliance's results, on a 100 percent basis, see the Alliance Profile contained in a separate section of this Annual Report.

AEGS

FINANCIAL HIGHLIGHTS – AEGS(1)

($ THOUSANDS)	2004
Revenues	1,062
Operations & maintenance	366
Depreciation & amortization	348
General & administrative	44
Net income before taxes	304

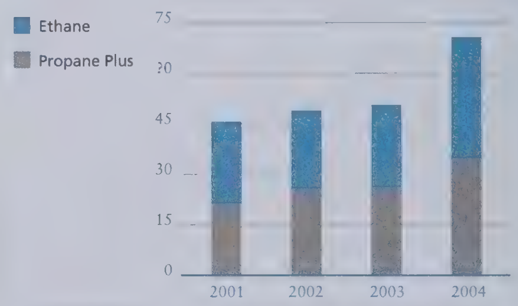
(1) Results from December 22, 2004.

On December 22, 2004, Fort Chicago acquired a 100 percent interest in AEGS for an aggregate purchase price of approximately $273.3 million. AEGS is a 1,324-kilometre pipeline that transports pure ethane within Alberta from various ethane extraction plants to major petrochemical complexes located near Joffre and Fort Saskatchewan, Alberta. AEGS is an integrated system that has interconnections with an underground storage site and an export pipeline system, although virtually all of the ethane transported is consumed in Alberta. AEGS is made up of three legs (east and west legs and a bi-directional north leg) that have an aggregate design capacity of 322,000 bbls/d. Revenues and earnings are based on long-term, take-or-pay ethane transportation agreements ("ETA"), which extend to December 31, 2018, and provide for a minimum revenue stream based on specified committed volumes, the recovery of all operating costs, and the right for each shipper to transport ethane on AEGS up to their committed volumes. As a consequence, AEGS is expected to generate a stable stream of annual revenues and earnings.

For additional discussion of AEGS' results, see the AEGS Profile contained in a separate section of this Annual Report.

NGL Business

The table below highlights Fort Chicago's proportionate share of Aux Sable's results for the years ended December 31, 2004 and 2003, as well as the impact associated with the 2003 acquisition of additional interest in Aux Sable and the resulting change in accounting. The balance of the year-over-year change, labelled as "Other," is reviewed below.



FINANCIAL HIGHLIGHTS – AUX SABLE

		YEAR-OVER-YEAR INCREASE (DECREASE)		
($ THOUSANDS)	2003(1)	PROPORTIONATE CONSOLIDATION AND CHANGE IN OWNERSHIP	OTHER	2004
Revenues	187,221	75,884	134,541	397,646
Natural gas, NGL & transportation	188,924	74,363	110,393	373,680
Operations & maintenance	476	108	363	947
Depreciation & amortization	3,025	2,569	(2,204)	3,390
Interest & other finance	1,415	527	(530)	1,412
General & administrative	3,644	1,211	679	5,534
Net income (loss) before taxes & equity income	(10,263)	(2,894)	25,840	12,683
Equity income – first quarter	(3,033)	3,033	–	–
Net income before taxes	(13,296)	139	25,840	12,683
Distributions (support payments), net	(12,778)	(177)	19,912	6,957

(1) Certain comparative figures have been reclassified to conform to presentation adopted in 2004.

2004 represented a key turning point for Aux Sable as market conditions became favourable and contributed to record operational and financial results. Aux Sable continued to make improvements to its business, which also contributed to this performance, and again delivered excellent safety and outstanding environmental performance. During the year, the plant continued to operate reliably with little unplanned downtime.

For the year ended December 31, 2004, Aux Sable's revenues were up $134.5 million over 2003, due to improved market conditions that supported higher NGL production and sales volumes. Aux Sable's average gas price for 2004 increased by five percent to US $5.83 per mmbtu from US $5.56 per mmbtu in 2003, while average WTI spot crude prices, which strongly influence NGL prices, increased by 33 percent from US $31.16 to US $41.40 over the same period. NGL sales volumes increased 39 percent to 70.2 mbbls/d in 2004, from 50.4 mbbls/d in 2003. Favourable market conditions resulted in no curtailments of NGL production in 2004. Partially offsetting this increase was the appreciation in the Canadian dollar.

Natural gas, NGL and transportation costs increased by $110.4 million in conjunction with the $134.5 million increase in revenues, which reflects higher volumes and natural gas prices. Improved market conditions resulted in better NGL extraction margins, particularly in the second half of 2004.

Depreciation and amortization costs decreased by $2.2 million due to the favourable impact from the strengthening of the Canadian dollar.

Interest and other finance costs decreased by $0.5 million due to the stronger results for 2004 that reduced Aux Sable's borrowing requirements, and a stronger Canadian dollar.

General and administrative costs increased by $0.7 million in 2004, due mainly to increased incentive compensation costs that were slightly offset by the favourable impact of the Canadian dollar.

For the year ended December 31, 2004, Aux Sable reported net income before taxes of $12.7 million (2003 – net loss of $13.3 million), after natural gas and NGL hedge losses of $16.6 million (2003 – $0.6 million), while earnings before taxes, depreciation and amortization were $16.1 million, up $26.4 million from 2003. Higher NGL production and sales volumes, as well as improvement in the NGL extraction margins, particularly in the second half of 2004, more than offset the negative impact of the appreciation in the Canadian dollar. Aux Sable also benefited from increased injection and fee-for-service volumes, which provide a stable source of earnings. A recent change in heat content requirements at one downstream interconnection has largely eliminated Aux Sable's exposure to negative extraction margins.

As a result of this favourable performance in 2004, Aux Sable initiated the payment of regular cash distributions to its owners. During the year ended December 31, 2004, aggregate distributions, net of marketing support payments, paid by Aux Sable were $6.9 million compared to support payments of $12.8 million in 2003.

For additional discussion of Aux Sable's results, on a 100 percent basis, see the Aux Sable Profile contained in a separate section of this Annual Report.

QUARTERLY FINANCIAL HIGHLIGHTS

	THREE MONTHS ENDED 2004(1)			
($ THOUSANDS, EXCEPT WHERE NOTED)	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenues	184,533	179,258	193,820	218,560
Net income	12,111	7,738	18,517	39,257
Net income per Class A Unit				
Basic	0.12	0.07	0.18	0.37
Diluted	0.12	0.07	0.18	0.34
Distributable cash	20,756	22,316	24,867	24,796
Distributable cash per Class A Unit	0.202	0.214	0.238	0.229

	THREE MONTHS ENDED 2003(1)			
($ THOUSANDS, EXCEPT WHERE NOTED)	MARCH 31	JUNE 30	SEPT. 30	DEC. 31
Revenues	6,752	147,761	158,984	193,202
Net income	12,418	11,551	6,689	22,714
Net income per Class A Unit				
Basic	0.17	0.15	0.07	0.23
Diluted	0.17	0.15	0.07	0.22
Distributable cash	16,796	17,944	15,688	22,846
Distributable cash per Class A Unit	0.225	0.200	0.172	0.226

(1) Restated – See Note 4 to the consolidated financial statements

FOURTH QUARTER RESULTS

For the three months ended December 31, 2004, the Partnership generated distributable cash of $24.8 million or $0.229 per Class A Unit compared with $22.8 million or $0.226 per Class A Unit for the same period in 2003. This increase is primarily attributable to the following factors: (i) a $5.6 million increase in net distributions received from the NGL business, reflecting improved market conditions and continued growth of Aux Sable's injection and fee-for-service businesses; (ii) a $1.4 million increase in distributions from Alliance, reflecting the return-on-equity adjustment reported in 2003 and collected in 2004; (iii) the acquisition of AEGS, which contributed $0.7 million to distributable cash; (iv) a $1.2 million decline in Partnership interest costs resulting from the 2003 refinancing of its acquisition bridge credit facility and the conversion of Series A Debentures to Class A Units in 2004; and (v) a reduction in Partnership capital taxes of $0.6 million, reflecting a higher fourth quarter adjustment in 2003. These increases were offset, in part, by: (i) a $7.4 million reduction in non-recurring realized foreign exchange gains attributable to the Partnership's U.S. denominated acquisition bridge credit facility that was repaid in 2003; and (ii) the issuance of additional Class A Units.

Net income for the quarter ended December 31, 2004 was $39.3 million or $0.37 per Class A Unit, in comparison to $22.7 million or $0.23 per Class A Unit for the quarter ended December 31, 2003. This $16.6 million increase in net income is primarily attributable to: (i) an $8.0 million improvement in Aux Sable resulting from improved operating and market conditions, which supported higher sales volumes and NGL margins; (ii) a $10.6 million improvement in earnings from Alliance after reflecting a $23.9 million reduction in future taxes in the fourth quarter, relating primarily to the utilization for Canadian toll setting purposes of certain loss carry-forwards that were allocated to Alliance's previous owners, which more than offset a $13.3 million decrease in net income due to the cumulative impact of a re-determination of the rate base and the return-on-equity adjustment reported in 2003; (iii) a $1.2 million decrease in interest and finance related costs arising from the 2003 refinancing of its acquisition bridge credit facility and the subsequent conversion of more than half of the Series A Debentures; which were partially offset by: (i) a $4.1 million decrease in Partnership foreign exchange gains; and (ii) the issuance of additional Class A Units.

During the three months ended December 31, 2004, revenues totalled $218.6 million ($193.2 million for the comparable period of 2003) due primarily to an increase in NGL revenues of $43.8 million, which was partially offset by a $14.7 million decrease in pipeline transportation revenues. A 24 percent increase in NGL sales volumes combined with a 40 percent increase in NGL prices accounted for the majority of the increased revenues in the NGL business. The decrease in pipeline revenues is attributable primarily to the cumulative effect of a re-determination of the investment base and the adjustment for the return on equity reported in the fourth quarter of 2003, and a stronger Canadian dollar, which reduced revenues by $3.7 million.

Operations and maintenance costs increased by $0.5 million for the quarter, due to increases from AEGS and Aux Sable, which were offset in part by the impact of the Canadian dollar.

Depreciation and amortization decreased by $1.2 million for the three months ended December 31, 2004, compared to the same period in 2003, due to favourable impact of the strengthening Canadian dollar and the Partnership fully amortizing its acquisition related debt issue costs in 2003.

Interest and other finance charges were $30.9 million for the quarter ended December 31, 2004, compared to $34.0 million in the quarter ended December 31, 2003. The decrease is attributable to the Partnership's refinancing of its acquisition bridge credit facility with the issuance of Class A Units and Convertible Debentures in 2003, the subsequent conversion of more than half of the Series A Debentures, the scheduled principal repayments of long-term debt and the impact of a stronger Canadian dollar.

General and administrative expenses were $11.8 million in the quarter ended December 31, 2004, up from $10.8 million in the same period of 2003. This increase is largely due to retiring allowances paid by Alliance, as well as costs associated with incentive programs.

LIQUIDITY AND CAPITAL RESOURCES

($ THOUSANDS)	YEARS ENDED DECEMBER 31 2004		2003(1)	
Cash flows				
Operating activities	172,042		87,901	
Financing activities	96,696		2,624	
Investing activities	(289,444)		(213,057)	
Cash and short-term investments	34,982		56,503	
Capitalization				
Senior debt and capital leases(2)	1,853,597	69%	1,720,827	67%
Subordinated convertible debentures	132,605	5%	203,280	8%
Other long-term liabilities(2)	37,319	1%	38,771	1%
Partners' equity	646,992	25%	607,535	24%
	2,670,513	100%	2,570,413	100%

(1) Certain comparative figures have been reclassified or restated to conform to presentation adopted in 2004.
(2) Includes current portion.

Cash Flows

For the year ended December 31, 2004, cash provided from operating activities was $172.0 million compared with $87.9 million in the preceding year, primarily reflecting improved operating results from Aux Sable and Fort Chicago's increased ownership interests in Alliance and Aux Sable, including the proportionate consolidation of these entities commencing on April 1, 2003. Cash flows generated by Alliance during 2004 of $184.0 million are supported by long-term natural gas transportation contracts, which provide an approximate 11 percent return on equity over their term, and were in line with expectations. Cash flows from Fort Chicago's NGL business have historically been difficult to predict and have varied significantly since the cost of shrinkage make-up gas, the largest cost component of producing NGL, is not tied to the prices received for Aux Sable's NGL products. This volatility has been reduced through an active hedging program, relaxed heat content management requirements, and growth in Aux Sable's injection and fee-for-service business, which provide a predictable and meaningful contribution to earnings. During 2004, Aux Sable also benefited from improved market conditions and contributed $19.5 million of cash flow from operating activities, a $31.4 million increase over 2003.

Following a very active 2003 that included the successful refinancing by Alliance of its remaining initial project financing, with long-term Senior Notes, and Fort Chicago's refinancing of its bridge acquisition facilities, with $212.5 million of Convertible Debentures and $222.4 million of Class A Units, 2004 financing activities were substantially reduced. For 2004, financing activities were limited to the initial financing by Fort Chicago of its acquisition of AEGS on December 22, 2004; scheduled senior debt principal repayments, that largely match the depreciation of the underlying assets; and regular monthly cash distributions, which excluded $7.8 million (2003 – $12.5 million) of distributions satisfied through the issuance of Class A Units under the Partnership's DRIP.

Investing activities reflect Fort Chicago's acquisition of AEGS (2003 – additional investments in Alliance and Aux Sable) and $16.2 million (2003 – $17.2 million) of capital expenditures mainly attributable to the Alliance Pipeline.

Cash and Short-term Investments

At year-end, cash and short-term investments totalled $35 million (2003 – $56.5 million), of which $18.9 million (2003 – $43.5 million) represents funds held in trust accounts pursuant to security and financing agreements applicable to Alliance.

The majority of these trust funds are used by Alliance for current operating and working capital purposes. Cash and short-term investments consist of amounts held in cash deposit accounts with a Canadian chartered bank, as well as highly liquid short-term investments. These cash balances are, together with strong cash flows and undrawn credit facilities, in management's view, adequate to meet the ongoing liquidity and capital requirements of Fort Chicago and its businesses.

Capitalization

Overall, Fort Chicago's capital structure as at December 31, 2004, remains strong and largely unchanged from 2003. Virtually all of Fort Chicago's consolidated debt is long-term and, with the exception of its subordinated Convertible Debentures and borrowings under revolving credit facilities, contain terms to maturity and amortization periods that are designed to approximate the applicable depreciation associated with the underlying assets. Furthermore, substantially all of this debt is fixed rate debt, insulating Fort Chicago and its businesses from potentially higher future interest rates.

Partnership. During 2004, the Partnership established a three-year, $300 million committed revolving credit facility, replacing a $60 million extendible 364-day revolving credit facility. This facility provides Fort Chicago with greater financial flexibility and can be used for general purposes, including funding acquisitions and distributions. On December 22, 2004, this facility was utilized to finance the acquisition of AEGS. As at December 31, 2004, the Partnership had outstanding borrowings of $275.5 million (2003 – nil) under this facility.

During 2003 and 2002, the Partnership established non-revolving committed bridge acquisition credit facilities in an aggregate amount of $410 million. These facilities were utilized by Fort Chicago to purchase additional interests in Alliance and Aux Sable, and were subsequently repaid from the net proceeds of several public offerings of Convertible Debentures and Class A Units.

The Partnership issued two classes of Convertible Debentures during 2003. The 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, due June 30, 2008 (the "Series A Debentures"), were issued in January 2003, with an aggregate face value of $150 million. The 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, due December 31, 2010 (the "Series B Debentures"), were issued in October 2003, with an aggregate face value of $62.5 million. The Series A and Series B Debentures are convertible, at the holder's option, into Class A Units at a conversion price of $9.00 per Class A Unit and $10.70 per Class A Unit, respectively. During the year ended December 31, 2004, $70.7 million (2003 – $9.2 million) of Series A Debentures were converted into Class A Units. No Series B Debentures had been converted into Class A Units as at December 31, 2004. Effective December, 2004, the Partnership early adopted the amended recommendations of the CICA regarding the presentation and disclosure of Convertible Debentures. This amendment, which is required to be implemented retroactively, results in the Partnership's Convertible Debentures being classified as a liability on the Consolidated Statements of Financial Position, and the associated interest expense correspondingly being classified with interest and other finance costs on the Consolidated Statements of Income and Cumulative Income. In addition, the associated issuance costs are to be deferred and amortized over the life of the debt. This reclassification does not impact any of the financial covenants under the Partnership's credit facility or the ratings issued by Standard & Poor's and Dominion Bond Rating Service.

Fort Chicago currently has a Canadian short form base shelf prospectus outstanding, which provides ready access to the capital markets. This prospectus was filed on August 15, 2003, and provided for the issuance of up to $500 million of partnership Units over a 25-month period. As at December 31, 2004, up to an additional $412.5 million could be issued under this prospectus.

Alliance. During 2003, Alliance completed several public offerings of Senior Notes and established new credit facilities, the proceeds of which were used to reduce and refinance existing bank debt, including the repayment and cancellation of its initial, incremental and revolving credit facilities. This completed Alliance's refinancing of the initial construction facilities and significantly reduced the refinancing risk and potential volatility of its transportation rates that previously existed. This new debt structure strengthens Alliance's overall financial position and flexibility going forward. At December 31, 2004, Alliance's debt was rated by each of Dominion Bond Rating Service Limited ("DBRS"), (A (low)), Moody's Investors Service (A3) and Standard & Poor's ("S&P"), (BBB+).

At December 31, 2004, Alliance's credit facilities consisted of a $95 million Canadian credit facility and a US $62.5 million U.S. credit facility. The Canadian credit facility contains an initial 364-day revolving term commencing on May 30, 2004, which if not extended can be converted into a subsequent two-year, non-revolving loan. The U.S. credit facility is a three-year term facility, which expires May 30, 2006. At December 31, 2004, $50 million (2003 – $50 million) of letters of credit and $17.8 million (2003 – $17.6 million) of borrowings were outstanding under the Canadian facility, while US $35 million (2003 – US $35 million) of letters of credit and US $8.9 million (2003 – $16.4 million) of borrowings were outstanding under the U.S. facility. The letters of credit are used to satisfy debt service reserve requirements required under Alliance's financing agreements.

Aux Sable. In August 2003, Aux Sable established a new U.S. committed revolving facility in the amount of US $19.2 million, which matures on December 31, 2005. This new credit facility, together with additional funding provided from its owners, including Fort Chicago, replaced a prior US $25.6 million credit facility. As at December 31, 2004, US $4.5 million (2003 – US $7.7 million) was drawn on this facility relating to outstanding letters of credit. Aux Sable also utilizes a revolving demand loan of $3.0 million to finance its Canadian working capital requirements. Aux Sable remains substantially equity financed given the historic volatility of its earnings. Prior to the strong turn in its business fundamentals in 2004, Aux Sable had been dependent upon the support of its owners.

CREDIT AND STABILITY RATINGS

Maintaining strong and stable ratings is a key overall objective of Fort Chicago's financing strategy, so as to provide for long-term ready access to the capital markets on attractive terms and conditions. Following the announced acquisition of AEGS in December, 2004, both S&P and DBRS placed Fort Chicago's ratings under review.

On December 10, 2004, S&P confirmed the BBB credit rating with a stable outlook applicable to Fort Chicago's senior unsecured debt. This investment grade rating applies both to the Senior Notes issued by the Partnership's subsidiaries and to any amounts outstanding under its credit facility. This long-term corporate credit rating does not apply to the Convertible Debentures issued by the Partnership. Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer's debt securities. S&P rates debt instruments with ratings ranging from "AAA," which represents the highest quality of securities, to "D," which represents securities that are in payment default. An S&P rating may be further modified by the addition of a plus "(+)" or minus "(–)" to show relative standing within the major rating categories. Debt instruments that are rated in the BBB category by S&P are considered to exhibit adequate protection parameters to investors. However, adverse economic conditions or changing circumstances could weaken capacity of the issuer to meet its financial commitment on the obligation.

On February 18, 2005, DBRS reaffirmed Fort Chicago's stability rating of STA-2 (low). This rating is based on a scale developed by DBRS, which provides an indication of both the stability and sustainability of an issuer's cash distributions per-unit, being an indication of an issuer's ability to generate sufficient cash to pay out a stable level of distributions on a per-unit basis over the longer term. DBRS ratings range from STA-1 to STA-7, with STA-1 being the highest rating. In addition, DBRS further separates the ratings into "high," "middle" and "low" to indicate an issuer's relative position within its assigned rating category. DBRS stability ratings take seven key factors into consideration: (i) operating characteristics; (ii) asset quality; (iii) financial profile; (iv) diversification; (v) size and market position; (vi) sponsorship/governance; and (vii) growth. In addition, consideration is given by DBRS to specific structural or contractual elements that may eliminate or mitigate specific risks or other potentially negative factors. Issuers rated STA-2 are considered by DBRS to have very good stability and sustainability of distributions per unit. Issuers rated STA-2 are generally ranked by DBRS as "superior" in all or the majority of the seven key factors considered when determining a stability rating.

DISTRIBUTIONS

Policy

Up to and including December 31, 2003, the Partnership's distribution policy was to make distributions to Unitholders on a quarterly basis. Payments were made on or before the 30th day after each quarterly record date. On January 14, 2004, the Partnership announced the adoption of a monthly cash distribution policy effective January 1, 2004, which replaced the previous quarterly cash distribution policy. Distributions have since been paid to Unitholders of record as at the last business day of each month on the 23rd day following such record date, or if not a business day, then on the preceding business day.

The Partnership's policy is to pay out 100 percent of its distributable cash, over time, to Unitholders.

Determination of Distribution

The amount of distributable cash available to the Partnership will vary depending on: (i) distributions received from Alliance, Aux Sable and AEGS, which in each case are after providing for the amortization of any long-term debt; (ii) any operating support payments required by any of the Partnership's businesses, including Aux Sable, which prior to 2004 required support from its owners; (iii) any cash held in reserve by the Partnership; (iv) the financing costs of the Partnership, including scheduled principal repayments of the Partnership and applicable subsidiaries; and (v) the operating expenses of the Partnership.

The calculation of the Partnership's distributable cash for the three-month periods and years ended December 31, 2004 and 2003, is set out below. During 2004, the Partnership's distributable cash increased by $19.4 million to $92.7 million. Distributions paid in respect of 2004 were $87.9 million, up $20.8 million from 2003. For the year ended December 31, 2004, the Partnership's distributable cash reserve increased by $4.9 million (2003 – $6.1 million), leaving a cumulative positive reserve, since inception, of $2.4 million.

DISTRIBUTABLE CASH[1]

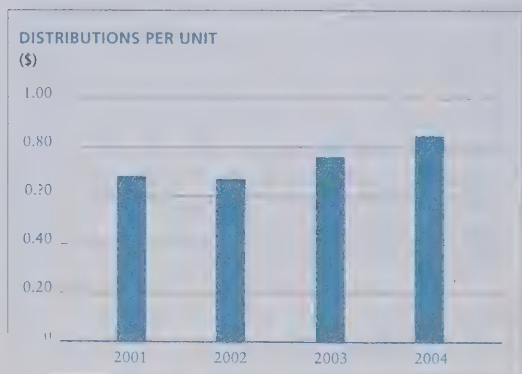
($ THOUSANDS, EXCEPT WHERE NOTED)	THREE MONTHS ENDED DECEMBER 31 2004	2003	YEAR ENDED DECEMBER 31 2004	2003
Cash inflows				
Alliance distributions, prior to withholding for capital expenditures	29,049	27,688	119,069	113,836
NGL distributions (support payments), net	4,137	(1,436)	6,957	(12,778)
AEGS earnings before taxes, depreciation & amortization, net of non-recoverable capital	652	–	652	–
Interest income	99	247	423	429
	33,937	26,499	127,101	101,487
Cash outflows				
General & administrative	(2,245)	(2,277)	(6,068)	(4,881)
Realized foreign exchange gains (losses)	(122)	7,284	80	9,840
Interest & other finance	(4,723)	(5,967)	(20,381)	(24,734)
Taxes	(1,135)	(1,713)	(4,084)	(4,203)
Principal repayments on Senior Notes	(916)	(980)	(3,913)	(4,235)
Distributable cash	24,796	22,846	92,735	73,274
Per Class A Unit[2]	0.229	0.226	0.883	0.822
Distributions payable/paid	23,556	20,228	87,871	67,111
Per Class A Unit[2]	0.218	0.200	0.836	0.750

(1) Distributable cash is not a standard measure under GAAP and may not be comparable to similar measures presented by other entities. See Non-GAAP Financial Measures contained below.

(2) The number of Class A Units used to calculate distributions payable/paid per Class A Unit is based on the number of Class A Units outstanding at each record date. For the three months and year ended December 31, 2004, the average number of Class A Units outstanding for this calculation was 108,303,041 (2003 – 101,142,290) and 105,033,934 (2003 – 89,135,565), respectively.

Distributions Paid

The table below summarizes the distributions that were declared and paid by the Partnership to holders of Class A Units in respect of 2004 and 2003. On January 18, 2005, the Partnership announced it had increased its January 2005 distribution to $0.075 per Class A Unit, which on an annualized basis increased the distribution by $0.03 per Class A Unit (or 3.45 percent) to $0.90 per Class A Unit. This increase was based on the incremental distributable cash resulting from improved NGL margins and operational improvements at Aux Sable, and the acquisition of AEGS On February 17, 2005, the Partnership declared its February distribution of $0.075 per Class A Unit.



($ THOUSANDS, EXCEPT WHERE NOTED)

RECORD DATE	PAYMENT DATE	DISTRIBUTION PER CLASS A UNIT	DISTRIBUTION PAID/ PAYABLE IN CASH	DISTRIBUTION PAID IN UNITS	TOTAL DISTRIBUTION PAID/PAYABLE
2004					
January 30, 2004	February 23, 2004	0.06875	6,673	347	7,020
February 27, 2004	March 23, 2004	0.06875	6,707	380	7,087
March 31, 2004	April 23, 2004	0.06875	6,735	400	7,135
April 30, 2004	May 21, 2004	0.06875	7,169	–	7,169
May 31, 2004	June 23, 2004	0.06875	7,169	–	7,169
June 30, 2004	July 23, 2004	0.06875	7,169	–	7,169
July 30, 2004	August 23, 2004	0.06875	7,170	–	7,170
August 31, 2004	September 23, 2004	0.06875	7,190	–	7,190
September 30, 2004	October 22, 2004	0.06875	7,206	–	7,206
October 29, 2004	November 23, 2004	0.07250	7,076	565	7,641
November 30, 2004	December 23, 2004	0.07250	7,408	548	7,956
December 31, 2004	January 21, 2005	0.07250	7,360	599	7,959
		0.83625	85,032	2,839	87,871
2003					
March 31, 2003	April 30, 2003	0.1800	12,162	1,250	13,412
June 30, 2003	July 31, 2003	0.1800	11,284	4,900	16,184
September 30, 2003	October 31, 2003	0.1900	11,992	5,295	17,287
December 31, 2003	January 30, 2004	0.2000	14,654	5,574	20,228
		0.7500	50,092	17,019	67,111

2005 Guidance

For 2005, the Partnership is currently forecasting distributable cash in the range of $0.92 to $1.00 per Class A Unit. This estimate is based upon approximately: (i) $1.01 to $1.05 per Class A Unit of distributions from Alliance; (ii) $0.00 to $0.20 per Class A Unit of distributions, net of support payments, from Aux Sable; (iii) $0.17 to $0.19 per Class A Unit from AEGS; (iv) $0.23 to $0.27 per Class A Unit for financing and administration expenses; and (v) $0.04 to $0.06 per Class A Unit for taxes. These estimates have been prepared based on a U.S. dollar exchange rate in the range of Cdn $1.15 to $1.25 per US $1.00 and assume that AEGS will be refinanced in 2005 using a combination of long-term debt and Class A Units. The Aux Sable estimate is highly sensitive to the NGL extraction margins. Prior to 2004, Aux Sable had not paid distributions to its owners and had relied upon their financial support. In 2004, Aux Sable's fundamentals improved significantly, resulting in regular distributions being paid to its owners, including Fort Chicago. For more detailed guidance, please go to the Investor Information section on Fort Chicago's website at www.fortchicago.com.

Restriction on Distributions

The ability of Fort Chicago to make cash distributions to holders of Class A Units is also dependent on the terms of certain financing and security agreements applicable to the Partnership, certain subsidiaries, Alliance and Aux Sable.

The Partnership's revolving credit facility restricts the Partnership from making a cash distribution to holders of Class A Units when a "Default" or an "Event of Default" has occurred or is continuing.

The Partnership's investment in Alliance and Aux Sable has been made via debt and equity investments in subsidiary partnerships and corporations. In general, there are no legal or practical restrictions on such subsidiary partnerships or corporations from transferring funds received from Alliance and Aux Sable to the Partnership, except that the subsidiary corporations must meet liquidity and solvency tests under applicable corporate law. Two subsidiaries of the Partnership, which hold direct investments in Alliance, are issuers of the Series A and Series B Senior Notes. The ability of each such issuer to make distributions to its parent is, at the time of each payment, dependent upon there not being any "Event of Default," as defined in the note agreements, or any event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an "Event of Default."

The ability of Alliance to make distributions to its limited partners is subject to the terms of a Common Agreement, which sets out the common provisions applicable to Alliance's senior debt financing. Under this agreement, quarterly distributions are permitted provided certain conditions are met including, among other things: (i) no "Event of Default" or event, which, with the giving of notice or passage of time or both, could become an "Event of Default" shall have occurred

and be continuing; (ii) certain debt service accounts and debt service reserve accounts are fully funded; and (iii) certain debt service coverage ratios and projected debt service coverage ratios are met.

The ability of Aux Sable U.S. to make distributions to its owners, including Fort Chicago, is subject to the terms of its U.S. credit facility, as amended on January 31, 2005. Under this facility, such distributions are subject to certain conditions being met, including: (i) no "Event of Default" or event, which, with the giving of notice or lapse of time or both, would constitute an "Event of Default" has occurred and is continuing, or would result from the making of such distribution; (ii) a certain debt service reserve account is fully funded; (iii) no advances under the facility are outstanding, or adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") is equal to or greater than $5.0 million (where adjusted EBITDA is defined as being the sum of the following amounts from September 1, 2003: (a) EBITDA, plus (b) capital contributions made by its partners, minus (c) distributions made to the partners); and (iv) EBITDA shall be equal to or greater than zero for the immediate preceding quarter.

CREDIT, CURRENCY AND COMMODITY EXPOSURES

Fort Chicago is exposed to credit risk since its businesses are concentrated in the natural gas transportation, ethane transportation and NGL industries, and its revenue is dependent upon the ability of its customers to pay their invoices. This exposure is particularly relevant in the pipeline business, where a majority of the shippers operate in the oil and gas exploration and development or energy marketing/transportation industries, and may be exposed to long-term downturns. In the case of Alliance, this exposure is reduced, in part, by requiring shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or a suitable financial position. In the case of AEGS, this exposure is reduced, in part, by the fact that Alberta's multi-billion dollar, low-cost petrochemical industry is dependent on AEGS for its ethane feedstock.

With approximately 40 percent of Fort Chicago's assets being situated in the U.S., Fort Chicago is exposed to fluctuations in the foreign exchange rate between Canadian and U.S. dollars. A significant portion of this exposure has been hedged through the issuance of U.S. dollar denominated debt. However, Fort Chicago's net U.S. investment in Alliance U.S. and Aux Sable U.S., and the net U.S. earnings and cash flows generated by these businesses, remains largely unhedged.

Through Fort Chicago's ownership interest in Aux Sable, Fort Chicago also has a direct exposure to fluctuations in the prices of NGL and natural gas. In order to mitigate this exposure, Aux Sable adopted a hedging policy which permits, within established parameters, entering into hedging transactions utilizing derivative instruments. The primary purpose of these hedges is to either manage the extraction margins, which are based on the relative price differential between NGL sales and offsetting natural gas purchases, or to hedge against changes in the price of natural gas used as fuel to operate Aux Sable's facilities. These hedge transactions are designated as effective cash flow hedges and are settled on a monthly basis. The unrealized fair value of these outstanding hedges is disclosed in Note 19 of Fort Chicago's consolidated financial statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Alliance Pipeline has firm service transportation services contracts with a group of 33 shippers that obligate shippers to pay monthly demand charges based on contracted volume, regardless of volumes actually transported on the pipeline. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the Alliance Pipeline, to transport volumes of natural gas up to the shipper's contracted capacity that were properly scheduled for delivery. If incurred, demand charge credits would decrease Alliance's revenue and net income. No demand charge credits were incurred during the three-year period ended December 31, 2004.

Pursuant to long-term ETAs, the Partnership is committed to transport specified minimum volumes of ethane in respect of four shippers who are committed to pay a minimum firm toll regardless of whether or not they transport ethane on AEGS. The shippers are relieved of this obligation to the extent that AEGS is unable, for any reason related solely to its ability, to transport volumes of ethane up to the shipper's contractual capacity. A shipper also has the right to terminate an ETA in certain limited circumstances where the shipper is unable to transport ethane on AEGS for a period of 180 days or more.

Aux Sable is committed to deliver specified minimum quantities of ethane and propane to counterparties at market prices. Failure to meet the specified minimum volumes will result in penalties payable to the counterparties. The earnings and cash flows of the NGL business are sensitive. In order to reduce its exposure to changes in the price of natural gas and NGL, Aux Sable enters into derivative financial instruments referenced to industry standard indices. For a detailed listing of Fort Chicago's proportionate share of Aux Sable's hedge contracts outstanding at December 31, 2004 and 2003, see the notes to the consolidated financial statements.

Payments due for contractual obligations in each of the next five years and thereafter are as follows:

CONTRACTUAL OBLIGATIONS

		PAYMENTS DUE BY PERIOD			
($ THOUSANDS)	TOTAL	LESS THAN 1 YEAR	1 – 3 YEARS	4 – 5 YEARS	AFTER 5 YEARS
Senior long-term debt	1,809,611	73,266	429,162	138,995	1,168,188
Subordinated convertible debentures	132,605	–	70,105	62,500	–
Capital leases	13,831	1,031	2,088	2,088	8,624
Operating leases	14,192	2,963	4,677	3,318	3,234
Other long-term obligations	37,319	8,402	9,788	4,884	14,245
	2,007,558	85,662	515,820	211,785	1,194,291

CRITICAL ACCOUNTING POLICIES

Alliance Pipeline is subject to regulation in Canada and the United States. The consolidated financial statements of the Partnership are prepared in accordance with GAAP, which include specific provisions applicable to regulated businesses such as Alliance. As a consequence, the principles may differ from those used by non-regulated entities. In general, the differences relate principally to revenue and expense recognition.

Alliance transportation contracts are designed to provide toll revenues sufficient to recover all prudently incurred costs, including an 11 percent return on equity. The period in which costs are recovered from toll receipts may differ from the period that these costs are expensed under GAAP. Differences between the recorded toll revenue and actual toll receipts give rise to receivable or payable balances. Most significantly, for purposes of calculating tolls, depreciation of the Alliance Pipeline is based on negotiated rates contained in the transportation contracts, while depreciation expense under generally accepted accounting principles is recorded on a straight-line basis at a rate of four percent per annum commencing on the in-service date. The negotiated depreciation rates are generally less than the straight-line rate in earlier years resulting in accrued revenues and receivables in earlier years. These receivables are expected to be recovered from shippers in subsequent years when the negotiated depreciation in the toll exceeds the depreciation recorded for financial statement purposes.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Fort Chicago's consolidated financial statements requires management to make judgements, estimates and assumptions about future events, when applying GAAP, that affect the recorded amounts of certain assets, liabilities, revenues and expenses. These judgments, estimates and assumptions are subject to change as events occur or new information becomes available. Readers should also refer to Note 3 of the consolidated financial statements for a list of the significant accounting policies.

Impairment of Long-Lived Assets

In management's view, the most significant accounting estimate relates to the determination as to whether there has been impairment in the carried value of Fort Chicago's long-term receivables and its pipeline, plant and other capital assets. Fort Chicago evaluates its long-term receivables and pipeline, plant and other capital assets for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. If management determines that the recoverability of the asset's carrying value has been impaired, the amount of the impairment is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value. Judgments and assumptions are inherent in the determination of the recoverability of such assets and the estimate of their fair value. In management's view, at December 31, 2004, there has not been an impairment of these assets.

Asset Retirement Obligation

The Partnership adopted the new standard of the *CICA Handbook Section 3110*, Asset Retirement Obligations, effective January 1, 2004. This standard requires the recognition of legal obligations associated with the retirement of tangible long-lived assets. The fair value of the liability is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until the Partnership settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's useful life.

The Partnership's businesses consist primarily of underground pipelines and above-ground equipment and facilities associated with its pipeline and NGL businesses. No amount has been recorded for asset retirement obligations relating to these assets, either because there is no legal obligation, the estimated liability is immaterial, or it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements.

NEW ACCOUNTING STANDARDS

Generally Accepted Accounting Principles

In July 2003, the Canadian Institute of Chartered Accountants ("CICA") issued *Handbook Section 1100*, Generally Accepted Accounting Principles, which establishes standards for financial reporting in accordance with GAAP. It defines primary sources of GAAP and requires that an entity apply every relevant primary source. Industry practice is not included as a primary source of GAAP and is also not included in the discussion of other sources of GAAP. This section became effective for the Partnership on January 1, 2004, and has not impacted its consolidated financial position or results of operations.

Financial Instruments

The Partnership adopted the new standard of the *CICA Handbook Section 3860*, Financial Instruments – Disclosure and Presentation, effective December 31, 2004. These revisions require certain obligations that must or could be settled with an entity's own equity instruments to be presented as a liability. The effect of this change on Fort Chicago results in the reclassification of Convertible Debentures from equity to debt and the capitalization of issue costs, to be amortized over the term of the Convertible Debentures. As well, interest on the Convertible Debentures, which was previously charged directly against undistributed income, is required to be charged against earnings. The impact of this new standard has been outlined in Note 4 of the Consolidated Financial Statements.

Asset Retirement Obligations

The Partnership adopted the new standard of the *CICA Handbook Section 3110*, Asset Retirement Obligations, effective January 1, 2004. This standard requires the recognition of legal obligations associated with the retirement of tangible long-lived assets. To date, no amount has been recorded for asset retirement obligations. As the timing and scope of any legal obligations associated with retirements becomes determinable, the estimated fair value of the liability and the costs of retirement will be recorded.

Hedging Relationships

In late 2001, CICA issued Accounting Guideline 13, Hedging Relationships. This pronouncement, which Fort Chicago adopted January 1, 2004, establishes the criteria that must be met before an entity can apply hedge accounting on certain derivative financial instruments. The application of this standard does not have a material effect on the Partnership's financial position or results of operations.

Variable Interest Entities

In June 2003, CICA issued Accounting Guideline 15, Consolidation of Variable Interest Entities, which requires enterprises to consolidate those variable interest entities of which they are the primary beneficiary, effective January 1, 2005. This guideline has no impact on the Partnership's Consolidated Financial Statements.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A are not measures recognized under GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors in determining the ability of the Partnership to generate cash and fund the monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Distributable Cash represents the cash available to the Partnership for distribution to holders of Class A Units and therefore does not include distributable cash, if any, available in Alliance and Aux Sable. Distributable cash is an important measure used by the investment community to assess the source and sustainability of the Partnership's cash distributions. See notes to the financial statements for a reconciliation of distributable cash to cash flow from operating activities.

Distributable Cash per Class A Unit is the per-unit amount of distributable cash calculated based on the weighted average number of Class A Units outstanding on each record date.

Distributions Paid/Payable represents the distributions declared by the Board of Directors of the General Partner in respect of a period, and which have been paid or are payable. Commencing in January 2004, distributions are declared and paid on a monthly basis. This measure is used by the investment community to calculate the annualized yield of the Class A Units, determined by dividing distributions paid/payable per Class A Unit (annualized) by the current quoted per-unit market price of the Class A Units.

Distributions Paid/Payable Per Class A Unit is the per-unit amount of distributions paid/payable, calculated based on the weighted average number of Class A Units outstanding on each record date.

Distributable Cash Reserve is calculated on a cumulative basis, since inception, and represents distributable cash generated by the Partnership in excess of the distributions paid/payable. This

measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

EBTDA refers to earnings before taxes, depreciation and amortization. EBTDA is reconciled to net income before tax by deducting depreciation, amortization and future income taxes. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions from Aux Sable and AEGS.

Enterprise Value represents the aggregate market value of the Partnership's assets and is calculated based on the total assets reported in the Consolidated Financial Statements, adjusted to reflect the excess of market value over book value in respect of the Partnership's consolidated debt and Class A Units. This measure, together with other measures, is used by the investment community to assess the overall market value of a business.

Growth Capital Expenditures are generally defined as capital expenditures that expand existing capacity and/or increase revenues. This measure is used by the investment community to assess the extent of discretionary capital spending.

Market Capitalization is determined by multiplying the year-end closing price per Class A Unit by the total number of Class A Units outstanding. This measure, together with other measures, is used by the investment community to assess the market value of the Class A Units.

Maintenance and Sustaining Capital Expenditures is generally defined as expenditures that involve an enhancement to existing assets without any associated increase in revenues, or new assets that provide support to operations without any associated increase in revenue. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

Payout Ratio represents distributions paid/payable as a percentage of distributable cash generated for any given period. This measure, together with other measures, is used by the investment community to assess the sustainability of the current distribution.

Total Unitholder Return represents the percentage total return on investment earned by a Unitholder over a specified period. This return is calculated based on an investment in Class A Units being made at the closing price reported by the TSX on the trading day immediately preceding the first day of the relevant period, the reinvestment of all distributions paid by the Partnership during such period, based on the relevant closing price reported by the TSX on the date the distribution is paid, and the closing price reported by the TSX on the last trading day of such period. This measure, together with other measures, is used by the investment community to assess relative performance.

Taxable Income (Losses) Allocated to Unitholders Per Class A Unit represents the amount of taxable income or losses allocated to a Unitholder for a given year, assuming that the Unitholder held the Class A Unit throughout the year. This measure, together with other measures, is used by the investment community to assess the relative tax efficiency and after-tax returns.

BUSINESS RISKS

Fort Chicago's assets include Alliance and AEGS, which are subject to the normal risks associated with the pipeline industry, and Aux Sable, which is subject to normal risks associated with the NGL extraction industry. Some risks are common to all of Fort Chicago's businesses and others are unique to either of the pipeline businesses or the NGL business.

In management's view, the more significant business risks affecting Fort Chicago's profitability and the amount of distributions that can be paid to Unitholders are identified below. The 2004 Annual Information Form ("AIF") contains a more detailed description of these and other risk factors associated with the businesses. The AIF should be read in conjunction herewith and is incorporated by reference.

Risks Common to Each of the Businesses

Exchange Rate Fluctuations Between Canada and the United States. A significant portion of Fort Chicago's assets, net earnings and cash flows are denominated in U.S. dollars. To reduce this risk, a significant portion of its U.S. assets are funded with U.S. dollar denominated debt, which serves as a natural hedge against movements in the U.S./Canadian dollar exchange rate. To date, Fort Chicago has not entered into any foreign currency hedges to protect its net U.S. dollar investments and cash flows. As at December 31, 2004, a Cdn $0.01 change in the Canadian dollar relative to the U.S. dollar will impact Fort Chicago's net income and distributable cash by approximately $0.008 and $0.004 per Class A Unit, respectively.

Adequacy of Insurance, Guarantees and Warranties. Fort Chicago and its businesses maintain customary insurance with limits that are consistent with applicable prudent business practices. There can be no assurance that such insurance coverage will continue to be available in the future on commercially reasonable terms, or that such current or future coverage will be sufficient to recover all losses incurred or protect the cash flow of the businesses. The insurance coverage in place is subject to limits and exclusions or limitations on coverage that are considered to be reasonable, given the cost of procuring

insurance and current operating conditions. Each of the businesses are subject to various environmental regulations and a breach of such laws may result in the imposition of fines or the issuance of clean-up orders, which may not be insurable.

Environmental Matters. The businesses are subject to laws and regulations relating to the protection of the environment. Although the Partnership believes that the operations of the businesses are in compliance with applicable environmental and safety laws and regulations, risks of substantial costs and liabilities, including those from leaks and explosions, are inherent in such operations. There can be no assurance that significant costs and liabilities will not be incurred in the future, including costs relating to claims for damages to property and persons resulting from such operations, and increased costs of compliance resulting from changes in laws and regulations, including those related to the reduction of carbon dioxide emissions. Also, Fort Chicago is unable to predict the effect that any future changes in environmental laws and regulations, including ratification of the Kyoto Protocol by the Government of Canada, will have on its future earnings.

Terrorist Risk. Energy industry operators have been working with government agencies to ensure the security of energy pipelines. The government agencies have worked with the operators of Fort Chicago's businesses to voluntarily improve security practices based on industry guidelines. It is possible that new security regulations will be developed and implemented. All measures to enhance pipeline security have the potential for increasing the cost of operation of the businesses. Although exposure to a terrorist attack, or the effect of any new regulation, is not any greater than the exposure for any of Fort Chicago's competitors, there is no assurance that the businesses will not become the subject of a terrorist attack regardless of the steps taken to increase security, or that any resulting losses will be insured.

Risks Specific to the Pipeline Businesses

Exposure to Shippers. Fort Chicago's pipeline businesses are highly dependent upon the shippers for revenues from contracted transportation capacity. The failure of any shippers to perform their contractual obligations under the transportation contracts, or the failure to replace such shippers on the same terms, could have an adverse effect on the cash flows and financial condition of the pipeline businesses and their ability to make distributions. A prolonged economic downturn in the energy industry, among other things, could impact the ability of some or all of the shippers of the respective pipeline businesses to fulfill their obligations under the transportation contracts.

Transportation Contracts. Each of the pipeline businesses has transportation contracts that obligate the respective shippers to pay demand charges, or to pay firm tolls, regardless of whether they utilize the transportation service. These charges are subject to limited rights in favour of a shipper to be relieved of the obligation to pay demand charges or firm tolls, to the extent that the pipeline is unable to provide transportation service, which would decrease the actual revenue received by the pipeline. As a result, the profitability of the pipeline businesses is dependent upon maintaining the aggregate physical capability at or above the contracted capacity.

Renewal of Transportation Contracts. The revenues generated by the pipeline businesses are derived from negotiated transportation contracts. In the case of Alliance, the contracts had an initial term of 15 years, which expires in December 2015. AEGS transportation contracts had an initial term of 20 years, which expires in December 2018. The decision by shippers to renew will depend on numerous factors, including the level of demand for natural gas and ethane in the geographic areas served by the pipelines, the ability and willingness of shippers to meet such demand, and the competitiveness of the pipelines' respective toll structures. Incentives exist for shippers on the Alliance system to extend their contracts beyond the initial term, but there can be no assurance that they will do so.

If any one or more of the shippers on the affected pipelines do not renew their transportation contracts, the affected pipeline businesses may be forced to lower rates to retain or replace such shippers. As a result, the pipeline businesses are exposed to economic risk associated with the recovery of capital beyond the primary term of the transportation contracts. Fort Chicago cannot predict the impact of future economic conditions or the ability to replace any shippers that choose not to extend or renew their contracts.

Dependence on WCSB Reserves. Fort Chicago expects that all or substantially all of the natural gas shipped on Alliance, and all of the natural gas streams used to produce ethane for transportation on AEGS, will, for the foreseeable future, be produced from the Western Canadian Sedimentary Basin ("WCSB"). Continued sales of WCSB natural gas by way of Alliance into the Midwestern and Northeastern United States, and the sale of WCSB ethane into the Albertan market, will be dependent on a number of factors over which neither the Partnership nor either of the individual pipeline businesses have any control, including: (i) the level of exploration, drilling, reserves and production of WCSB natural gas and the price of such natural gas; (ii) the accessibility of WCSB natural gas; (iii) the price and quality of natural gas available from

alternative sources; and (iv) regulations in effect in Canada and the United States, including those permitting the export of natural gas from Canada to the United States.

Competition. Alliance faces competition in pipeline transportation to Chicago area delivery points from both existing and proposed projects, and there are several proposals to expand existing pipelines serving such areas and markets. AEGS has more limited existing competition but could face future competition in ethane transportation from existing or proposed projects.

With respect to each of the pipeline businesses, any new or upgraded natural gas pipelines, ethane or petrochemical feedstock transportation systems and/or ethane extraction facilities could either: (i) allow shippers and competing pipelines to have greater access to markets served by the pipeline businesses; or (ii) offer natural gas or ethane transportation services that are more desirable to shippers than those provided by the respective pipelines because of location, facilities or other factors. In addition, these new or upgraded pipelines could charge rates or provide service to locations that result in greater net profit for shippers. This may have the effect of forcing either or both of the pipeline businesses to lower their transportation rates, for commercial reasons, effective on the expiry of the initial 15-year term of the Alliance transportation contracts or on the expiry of the initial 20-year term of the AEGS transportation contracts, to avoid losing shippers, thereby reducing the cash flows generated from the impacted pipeline businesses' transportation contracts.

Pipeline Operating Risks. As with any comprehensive pipeline system, the operation of Fort Chicago's pipeline businesses involves many risks, including the breakdown or failure of equipment, information systems or processes, the performance of equipment at levels below or beyond those originally intended, failure to keep on hand adequate supplies of spare parts, operator error, labour disputes, disputes with interconnected facilities and carriers, and catastrophic events, many of which are beyond its control. The occurrence or continuance of any of these events could increase the cost of operating the pipelines and/or reduce transportation capacity, thereby potentially impacting the cash flows from either or both of the pipeline businesses.

Each of the pipeline businesses operates through interconnections with numerous other facilities. Typical of the pipeline and energy industry on the whole, the regulated terms of service or the prevailing business and operating principles, necessarily differ between and amongst these various facilities. Conflicts can arise from these differing requirements in various circumstances. Given the lack of control over the requirements adopted by operators of other facilities, no assurance can be given that these differing requirements will not result in operational problems or the potential materiality or duration thereof.

In the specific case of Alliance, if the Aux Sable extraction and fractionation facility does not provide heat content management services for any reason, the absence of these services may give rise to operational problems for Alliance and the shippers and, in certain circumstances, could result in an interruption or curtailment of transportation service on the Alliance Pipeline until such time that operational problems are rectified or alternative operational procedures are implemented. If the operations of Aux Sable were suspended or closed, Alliance could be required to provide alternative heat content management arrangements, which could reduce the amount of distributions by Alliance. It is not possible to predict the extent or duration of these operational problems or their precise effect on Alliance, although recent amendments to downstream heat content requirements have reduced this exposure.

Impact of Regulation and Legislation. Alliance is subject to Canadian and United States federal regulation by the NEB and the FERC, respectively. Either on application by a third party or on their own initiative, the NEB and the FERC may require revisions to the tariffs applicable to the Alliance Canada Pipeline and Alliance U.S. Pipeline, respectively, including potentially material changes in the applicable transportation rates charged or other terms and conditions observed by Alliance. Changes in industry regulations, or the regulation of Alliance Pipeline, could adversely affect Alliance, including its ability to make distributions.

AEGS is subject to Canadian provincial regulation by the Alberta Energy and Utilities Board (the "AEUB"). Such regulation may relate to, among other things, required permits and approvals and other complaint-based issues that may be raised by existing or potential shippers, and access to AEGS by new shippers. Changes in the regulation of AEGS, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of operations of AEGS.

Abandonment Charges. Each of the pipeline businesses will be responsible for compliance with all laws and regulations concerning the abandonment of their pipeline and related facilities at the end of their respective economic life.

The costs of abandonment will be a function of then current regulatory requirements, which cannot be accurately predicted. In future, it may be necessary to establish and fund a reserve to address anticipated costs of abandonment of each of the pipelines. The decision to fund such a reserve may reduce the funds available to discharge other obligations and could affect the ability to make distributions.

Alliance's Dependence on Other Owners. The affairs of Alliance are governed by partnership and shareholder agreements entered into by the owners of such entities. Pursuant to such agreements, certain decisions regarding these entities require resolutions passed by the affirmative vote of a simple majority, 66-2/3 percent, 75 percent, 80 percent or 100 percent of the owners. All decisions requiring owner approval, in effect, require the agreement of both Fort Chicago and Enbridge Income Fund, in the case of Alliance Canada, and Enbridge Inc., in the case of Alliance U.S.

Dependence on Third-Party Operator for AEGS. Fort Chicago has entered into an operating agreement with NOVA Chemicals Corporation ("NOVA Chemicals") whereby NOVA Chemicals will physically operate AEGS. In the event the operating agreement is terminated, or NOVA Chemicals otherwise becomes unable to fulfill its obligations under the operating agreement, Fort Chicago may be required to secure a replacement operator for AEGS, or Fort Chicago may be required to assume the operation of AEGS.

Structural Integrity of Storage Facilities related to AEGS. AEGS has entered into a long-term storage agreement to permit shippers on AEGS to store ethane in underground salt caverns located at Fort Saskatchewan, Alberta. The use of the facility is subject to risks related to the nature of the salt caverns that are used to store ethane. Deterioration in the integrity of the caverns could cause disruptions to the operations of the caverns and reduce the available storage capacity for an extended period of time. This could have a negative effect on the quantity of ethane transported on AEGS and the revenues of Fort Chicago.

AEGS Reliance on Ethane Customers. The two primary customers of the ethane shipped on AEGS are NOVA Chemicals and Dow Chemical Canada Inc. ("Dow Chemical"). If, for any reason, either NOVA Chemicals or Dow Chemical reduced or eliminated the quantities of ethane purchased by them that is transported on AEGS, this could have a negative effect on the quantity of ethane transported on AEGS and the revenues of Fort Chicago and, in the long-term, could impair Fort Chicago's ability to secure replacements for the transportation contracts.

Risks Specific to the NGL Business

NGL Extraction Margins. NGL extraction margins represent the largest potential variability in the cash available for distribution to Unitholders. This margin will depend, in part, on the relationship between the price of natural gas and the prices of ethane, propane, butane and condensate, since the cost of shrinkage make-up gas is the largest cost component of producing NGL. The cost of this natural gas is not tied to the prices received by Aux Sable for its products, and thus the profit margin from the production and sale of NGL has the potential to vary significantly as the pricing relationship between natural gas and NGL changes. Accordingly, a significant portion of the cash available to distribute to the owners of Aux Sable is sensitive to changes in natural gas and NGL pricing.

Availability and Composition of Natural Gas. The production of NGL by Aux Sable is dependent upon the volumes transported on the Alliance Pipeline and the composition of the natural gas stream at the inlet to the extraction facility. This volume and composition has the potential to vary over time and, in turn, could adversely impact Aux Sable's production and revenues.

NGL Operating Risks. Aux Sable processes large volumes of natural gas at high pressure in equipment with fine tolerances. Equipment failures could result in damage to the extraction and fractionation facilities, and liability to third parties against which Aux Sable may not be able to fully insure or may elect not to insure because of high premium costs or for other reasons.

Chicago/AECO Natural Gas Price Differential. Alliance Canada Marketing holds long-term contracts for 76.2 mmcf/d of transportation capacity on the Alliance Pipeline. The amount of cash available to distribute to its owners, or the amount of support payments required from its owners, will depend on the relationship between the price of natural gas sold in Chicago and the price of natural gas purchased in Alberta, the cost of transporting the natural gas on the Alliance Pipeline, and associated administration costs. Since commencement, this margin has not been sufficient to cover the costs associated with the long-term contracts. There can be no assurance as to when or if this margin will improve.

Dependence on Other Owners. The affairs of Aux Sable are governed by partnership and shareholder agreements entered into by the owners of such entities. Pursuant to such agreements, certain decisions regarding these entities require resolutions passed by the affirmative vote of a simple majority, 66-2/3 percent, 75 percent, 80 percent, or 100 percent of the owners. While most decisions can be made with the agreement of both Fort Chicago and Enbridge, some decisions could depend on the views of Aux Sable's minority owner.

MANAGEMENT'S REPORT

The consolidated financial statements of Fort Chicago Energy Partners L.P. ("Fort Chicago") and all information contained in this Annual Report are the responsibility of the management of Fort Chicago Energy Management Ltd. (the "General Partner"), the general partner of Fort Chicago.

The consolidated financial statements have been prepared by the management of the General Partner in accordance with accounting principles generally accepted in Canada. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Actual results may differ from these estimates and judgments. Management has ensured that these consolidated financial statements are presented fairly in all material respects.

Management maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information contained in this Annual Report is relevant, reliable and accurate, and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the General Partner is responsible for reviewing and approving Fort Chicago's annual consolidated financial statements and, primarily through its Audit Committee, for ensuring that management fulfills its responsibilities for financial reporting and internal control.

The Audit Committee is comprised of five independent and financially literate board members and meets regularly during the year with management and the external auditors to satisfy itself that management's responsibilities are being discharged, to review and approve the interim consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's interim reports prior to their release, and to review the annual consolidated financial statements, Management's Discussion and Analysis and other information contained in Fort Chicago's Annual Report, as well as its Annual Information Form, prior to submitting them to the Board of Directors for approval.

The independent external auditors, PricewaterhouseCoopers LLP, have been appointed by the Unitholders of Fort Chicago to express an opinion as to whether the consolidated financial statements of Fort Chicago for the year ended December 31, 2004 present fairly, in all material respects, the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles in Canada.

Stephen H. White
President and Chief Executive Officer

Hume D. Kyle
Vice President, Finance and Chief Financial Officer

February 25, 2005

AUDITORS' REPORT

To the Unitholders of Fort Chicago Energy Partners L.P.

We have audited the Consolidated Statement of Financial Position of Fort Chicago Energy Partners L.P. (the "Partnership") as at December 31, 2004 and 2003, and the Consolidated Statements of Income and Cumulative Income and Cash Flows for the years then ended. These financial statements are the responsibility of the management of the Partnership's general partner, Fort Chicago Energy Management Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

February 25, 2005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

($ THOUSANDS)	DECEMBER 31, 2004	DECEMBER 31, 2003
		(Restated – Note 4)
Assets		
Cash & short-term investments (Note 5)	34,982	56,503
Transportation security deposits & revenue adjustments (Notes 6 and 12)	16,574	11,763
Receivables	57,169	51,522
Inventory	6,153	6,298
Prepaid expenses	6,142	4,212
	121,020	130,298
Long-term receivables (Note 6(a))	160,747	142,025
Pipeline, plant & other capital assets (Note 9)	2,594,831	2,467,218
Other assets (Note 10)	19,403	26,407
	2,896,001	2,765,948
Liabilities		
Current liabilities		
Payables	71,400	61,181
Transportation security deposits (Note 13)	9,248	5,645
Distribution payable (Note 15(b))	7,360	14,654
Bank debt	–	135
Deferred revenue	–	496
Current portion of long-term debt & capital leases (Note 11)	73,493	71,466
	161,501	153,577
Non-current liabilities		
Long-term liabilities (Note 14)	28,917	31,981
Senior long-term debt and capital leases (Note 11)	1,780,104	1,649,226
Subordinated convertible debentures (Note 12)	132,605	203,280
Future taxes (Note 17)	145,882	120,349
	2,087,508	2,004,836
	2,249,009	2,158,413
Partners' Equity		
Partners' capital account (Note 15)	751,073	679,442
Cumulative translation adjustment	(92,247)	(70,321)
Cumulative net income	246,332	168,709
Cumulative distributions	(258,166)	(170,295)
	646,992	607,535
Commitments & contingencies (Note 18)		
	2,896,001	2,765,948

See accompanying Notes to the Consolidated Financial Statements

Approved by the Board of Directors of Fort Chicago Energy Management Ltd. as the General Partner of Fort Chicago Energy Partners L.P.

By: *Stephen H. White*
Director

By: *David J. Drybrough*
Director

CONSOLIDATED STATEMENT OF INCOME AND CUMULATIVE INCOME

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	YEAR ENDED DECEMBER 31 2004	2003
		(Restated – Note 4)
Revenues		
Transportation (Note 6)	381,230	297,462
Natural gas liquids	397,549	187,372
Interest	1,902	3,553
Foreign exchange gain (loss) & other	(4,510)	18,312
	776,171	506,699
Expenses		
Natural gas, natural gas liquids & transportation	357,541	178,244
Operations & maintenance	54,277	38,056
Depreciation & amortization	112,429	88,850
Interest & other finance (Notes 11 and 12)	129,064	109,527
General & administrative	37,842	26,904
	691,153	441,581
Net income before taxes & equity income	85,018	65,118
Current taxes	4,098	4,203
Future taxes (Note 16)	3,297	21,471
Net income after taxes & before equity income	77,623	39,444
Equity income	–	13,928
Net income	77,623	53,372
Cumulative net income at the beginning of the period	168,709	115,337
Cumulative net income at the end of the period	246,332	168,709
Net income per Class A Unit		
Basic	0.74	0.62
Diluted	0.73	0.62

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

($ THOUSANDS)	2004	2003
	YEAR ENDED DECEMBER 31	
		(Restated – Note 4)
Operating		
Net income	77,623	53,372
Less: Equity income	–	(13,928)
Non-cash transportation revenue (Note 6)	(33,488)	(43,655)
Unrealized foreign exchange (gains) losses	4,315	(7,886)
Add: Depreciation & amortization	114,897	90,033
Future taxes	3,297	21,471
Changes in non-cash working capital	5,398	(33,292)
Distributions received	–	21,786
	172,042	87,901
Financing		
Convertible debentures	–	212,500
Class A Units	15	222,440
Equity and convertible debentures issue costs	–	(11,960)
Short-term debt	–	(66,171)
Debt issue costs	(282)	(15,203)
Long-term debt issued	275,500	548,364
Long-term debt repaid	(86,211)	(839,586)
Distributions paid	(92,326)	(47,760)
	96,696	2,624
Investing		
Investment in Alliance and Aux Sable (Note 8)	–	(202,624)
Investment in Alberta Ethane Gathering System (Note 7)	(273,283)	–
Sales tax refund	–	6,763
Additions to pipeline, plant and other capital assets	(16,161)	(17,196)
	(289,444)	(213,057)
Decrease in cash and short-term investments	(20,706)	(122,532)
Cash & short-term investments at the beginning of the period	56,503	11
Alliance & Aux Sable cash & short-term investments acquired	–	186,820
Effect of foreign exchange rate changes on cash & short-term investments	(815)	(7,796)
Cash & short-term investments at the end of the period	34,982	56,503
Cash & short-term investments	16,072	13,013
Cash & short-term investments in trust	18,910	43,490
	34,982	56,503
Supplemental disclosure of cash flow information		
Interest paid	127,082	133,854
Taxes paid	3,768	3,318

See accompanying Notes to the Consolidated Financial Statements.

Years ended December 31, 2004 and December 31, 2003
($ thousands, except where stated)

1/ DISTRIBUTABLE CASH OF THE PARTNERSHIP(1)

	YEAR ENDED DECEMBER 31	
	2004	2003
Cash inflows		
Alliance distributions, prior to withholding for capital expenditures	119,069	113,836
Aux Sable distributions (support payments), net	6,957	(12,778)
AEGS earnings before taxes, depreciation & amortization, net of non-recoverable capital	652	–
Interest income	423	429
	127,101	101,487
Cash outflows		
General & administrative	(6,068)	(4,881)
Realized foreign exchange gains	80	9,840
Interest & other finance	(20,381)	(24,734)
Taxes	(4,084)	(4,203)
Principal repayments on Senior Notes	(3,913)	(4,235)
Distributable cash	92,735	73,274
Distributions payable/paid	87,871	67,111
Distributions payable/paid per Class A Unit(2)	0.836	0.750

(1) Distributable cash is not a standard measure under generally accepted accounting principles in Canada and may not be comparable to similar measures presented by other entities. Distributable cash represents the cash available to the Partnership for distribution to holders of Class A Units and therefore does not include distributable cash, if any, available in Alliance and Aux Sable. Distributable cash is an important measure used by the investment community to assess the source and sustainability of the Partnership's cash distributions and should be used to supplement other performance measures prepared in accordance with generally accepted accounting principles in Canada. See Note 22 for reconciliation of distributable cash to cash flows from operations.

(2) The number of Class A Units used to calculate distributions payable/paid per Class A Unit is based on the number of Class A Units outstanding at each record date. For the year ended December 31, 2004, the average number of Class A Units outstanding for this calculation was 105,033,934 (2003 – 89,135,565). On a diluted basis, the weighted average number of Class A Units outstanding would increase by 13,630,566 Class A Units, which reflects the number of Class A Units issued upon the conversion of the outstanding Convertible Debentures as at December 31, 2004.

2/ BUSINESS AND STRUCTURE OF THE PARTNERSHIP

Fort Chicago Energy Partners L.P. (the "Partnership") is a publicly traded limited partnership, which was originally created under the laws of the Province of Alberta on October 9, 1997 to hold, through subsidiary partnerships and corporations, a 26 percent interest in the Alliance Pipeline and the Aux Sable natural gas liquids ("NGL") extraction and fractionation facility, each of which were under development at the time. In December 2000, the pipeline and NGL facility commenced operations.

Following several acquisitions in 2002 and 2003, Fort Chicago increased its ownership in Alliance and Aux Sable to 50 percent and 42.7 percent, respectively. Alliance owns and manages a mainline gas pipeline with various connecting lateral pipelines extending from Northeastern British Columbia to points near Chicago, Illinois. Aux Sable owns and manages an NGL extraction and fractionation facility near the terminus of the Alliance Pipeline as well as storage, downstream pipelines and loading facilities, and long-term natural gas transportation capacity on the Alliance Pipeline.

In December 2004, the Partnership acquired 100 percent of the Alberta Ethane Gathering System ("AEGS"), a 1,324-kilometre pipeline that transports pure ethane from various Alberta ethane extraction plants to Alberta's major petrochemical complexes

located near Joffre and Fort Saskatchewan, Alberta. Pursuant to a Contract Operating Agreement, NOVA Chemicals Corporation is responsible for the physical operatorship of AEGS, while Fort Chicago is responsible for the commercial operatorship.

Fort Chicago Energy Management Ltd. (the "General Partner") is responsible for overseeing the management of the Partnership, including the determination of the amount of distributions to the holders of limited partnership units of the Partnership, and is reimbursed for its costs and expenses. The principal activities of the Partnership include investing in and managing, directly or indirectly, businesses that generate, transport, store, market, process or produce energy with a view to providing its limited partners with stable and growing cash distributions in both the short and long term.

Currently, the Partnership's principal investments are in the pipeline and NGL businesses. The pipeline business is comprised of Alliance Pipeline Limited Partnership ("Alliance Canada"), Alliance Pipeline L.P. ("Alliance U.S." and, together with Alliance Canada, and each of their managing General Partners, collectively referred to as "Alliance" or "Alliance Pipeline") and Alberta Ethane Gathering System L.P. (together with its General Partner, collectively referred to as "AEGS" or "AEGS Pipeline"). The NGL business is comprised of Aux Sable Canada L.P. ("Aux Sable Canada"), Aux Sable Liquid Products L.P. ("Aux Sable U.S.") and Alliance Canada Marketing L.P. ("Alliance Canada Marketing" and, together with Aux Sable Canada, Aux Sable U.S., and each of their managing General Partners, collectively referred to as "Aux Sable" or the "NGL Business").

3/ SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES OF THE PARTNERSHIP

Basis of Presentation

These consolidated financial statements have been prepared by the General Partner in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

These consolidated financial statements include the accounts of the Partnership and its subsidiary partnerships and corporations (collectively "Fort Chicago"), as well as the Partnership's proportionate interest in Alliance and Aux Sable, which as a consequence of the purchase described in Note 8 became jointly controlled businesses and have therefore been proportionately consolidated effective April 1, 2003. For the three-month period ended March 31, 2003, Alliance and Aux Sable were accounted for using the equity method.

Alliance Pipeline is regulated by the National Energy Board ("NEB") in Canada and by the Federal Energy Regulatory Commission ("FERC") in the United States. In order to achieve a proper matching of revenues and expenses, accounting and reporting requirements applicable to regulated entities have been adopted in connection with Alliance, which provide for certain revenues and expenses being recognized differently than otherwise expected under generally accepted accounting principles applicable to non-regulated businesses. AEGS and Aux Sable are not rate-regulated entities.

In management's opinion, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant policies summarized below:

Cash and Short-term Investments

Cash and short-term investments comprise cash and highly liquid investments with original maturities of 90 days or less and carrying values which approximate market value. A portion of these short-term investments are held in trust accounts, the majority of which are permitted to be used for operating and working capital purposes.

Inventory

Inventory consists of NGL inventory stored at Aux Sable's plant and at third party storage locations, and is valued at the lower of average cost or market as determined by market prices at December 31, 2004. Inventory of plant spare parts is recorded at the lower of cost and replacement cost.

Pipeline, Plant and Other Capital Assets

Pipeline assets are recorded at cost and are being depreciated on a four-percent-per-annum, straight-line basis commencing from the in-service date with respect to Alliance and from the date of acquisition with respect to AEGS. Plant assets, consisting of the extraction and

fractionation plant, field offices and ancillary equipment, are recorded at cost and are being depreciated on a straight-line basis over the life of the asset, with rates ranging from three percent to 33 percent per annum. Assets under capital lease are amortized on a straight-line basis over the life of the asset. Administrative assets, which include head office furniture and equipment, information systems and leasehold improvements, are recorded at cost and depreciated on a straight-line basis over the life of the asset or the term of the lease, with rates ranging from 10 percent to 33 percent per annum. Capital spares are valued at the lower of average cost or net realizable value and are not depreciated.

The allowance for funds used during construction ("AFUDC") represents the cost of debt and equity financing incurred during construction of the Alliance Pipeline that is expected to be recovered in future rates. Accordingly, these costs were capitalized and are being amortized to earnings on a basis consistent with the underlying assets.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in the preparation of these consolidated financial statements relate to the determination as to whether there has been an impairment in the carried value of Fort Chicago's long-term receivables, and its pipeline, plant and other capital assets.

Impairment of Pipeline, Plant and Other Capital Assets

The Partnership evaluates the pipeline, plant and other capital assets for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When such a determination is made, management's estimate of the undiscounted future cash flows attributable to the assets is compared to the carrying value of the assets, to determine whether the recoverability of the carrying value has been impaired. If an impairment of the carrying value has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the amount that the carrying value exceeds the estimated fair value.

Judgments and assumptions are inherent in management's estimate of the undiscounted future cash flows used to determine recoverability of an asset and the estimate of an asset's fair value used to calculate the amount of any impairment. As at December 31, 2004, there has not been an impairment of Fort Chicago's pipeline, plant and other capital assets.

Asset Retirement Obligations

Effective January 1, 2004, the Partnership adopted the new Canadian accounting standard relating to asset retirement obligations. This new standard requires the recognition of obligations associated with the retirement and reclamation of tangible long-lived assets when a reasonable estimate of fair value can be made. The recording of such obligations results in a corresponding increase to the carrying amount of the related assets, which is amortized to earnings on a basis consistent with the underlying assets. Subsequent changes in the estimated obligations are capitalized and amortized over the remaining useful life of the underlying asset. A provision for asset retirement obligations has not been recognized in these financial statements, either because there is no legal obligation, the estimated obligation is not material, or it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of any such retirement and reclamation.

Intangible Assets – Ethane Transportation Agreements

Intangible assets represent the cost allocated to the AEGS ethane transportation agreements ("ETAs"), which are being amortized on a straight-line basis over the term of the agreements. The carrying value of the ETAs is tested for impairment by reviewing the financial reports and other public information of its counterparties to determine their financial ability to continue paying the committed amounts.

Deferred Charges

All costs directly associated with arranging financing are capitalized as deferred financing charges and amortized over the life of the related debt using either the straight-line or the effective interest rate method. Acquisition costs are capitalized and amortized over the life of the acquired assets.

Revenue Recognition

Alliance Pipeline transportation contracts are designed to provide toll revenues sufficient to recover the costs of providing transportation service to shippers, including operating and maintenance and administrative costs and allowances for depreciation, deemed taxes, costs of indebtedness, and an allowed return on equity of approximately 11 percent. The portion of such costs expected to be recovered each year under the existing transportation contracts is equal to the percentage of the firm transportation capacity held under such contracts. For years ended 2004 and 2003, 100 percent of the firm capacity was contracted under firm-service transportation service agreements ending in 2015.

The period in which Alliance pipeline transportation costs are recovered from toll receipts may differ from the period that these costs are expensed in the consolidated financial statements. Transportation revenues include amounts related to accrued expenses that are expected to be recovered from shippers in future tolls. Similarly, no transportation revenue is recognized in a given period for tolls received that do not relate to current period expenses accrued in these financial statements. Differences between the recorded transportation revenue and actual toll receipts give rise to receivable or payable balances, which are collected in future tolls.

If rate regulated accounting were not used, the long-term receivable, the long-term liability and the transportation revenue adjustments in Notes 6 and 14 would not be recognized in these consolidated financial statements.

AEGS transportation revenue is based on toll charges and operating cost recoveries, including maintenance capital, as provided for under the ETAs. Revenue is recognized at each receipt point and is subject to minimum take-or-pay arrangements.

NGL revenue is recognized at the time of delivery. Revenue on exchanged products is deferred and not recognized until the date the exchanged product is delivered. Prior to this date, exchanged products are recorded as inventory.

Shipper Imbalances

Slight physical imbalances between the volume of gas received from shippers and the volume of gas delivered to downstream interconnects may be experienced on the pipeline, which affects the volume of pipeline linepack, the cost of which is included in pipeline, plant and other capital assets. Shippers are obligated to rectify these imbalances in short order by arranging for the necessary physical delivery of natural gas or ethane at the pipeline receipt points or at the downstream interconnects. Accordingly, no receivables or payables balances related to shipper imbalances are recognized in these consolidated financial statements.

Foreign Currency Translation

The functional currency of the Partnership and its Canadian subsidiaries is the Canadian dollar. Foreign denominated monetary assets and liabilities are translated at the exchange rate prevailing at the year-end, non-monetary assets and liabilities are translated at exchange rates in effect on the date the assets were acquired or liabilities assumed, and revenues and expenses at average rates of exchange during the year.

The accounts of foreign subsidiaries are translated using the current rate method whereby all assets and liabilities are translated into Canadian dollars using the exchange rate in effect at the balance sheet date, and all revenues and expenses are translated into Canadian dollars at average exchange rates during the year. The resulting net cumulative translation gain or loss is not included in the consolidated statement of income, but is deferred and reported as a separate component of Partners' equity.

Derivative Financial Instruments

In order to mitigate exposure to commodity price fluctuations, Aux Sable adopted a hedging policy which permits, within established parameters, entering into hedging transactions utilizing derivative instruments. These hedge transactions are designated as effective cash flow hedges and are settled on a monthly basis. The unrealized change in the fair value of these instruments is disclosed in Note 19.

Units Appreciation Rights Plan

Unit appreciation rights ("UARs") issued by the Partnership are recorded by measuring, on an ongoing basis, the excess of the market price over the exercise price. The obligation, which results from the variation in market price of the Class A Units, is recognized in income on a straight-line basis over the vesting period and a corresponding amount is accrued as a current liability. When the UARs have vested and until either the UARs are exercised or they expire, the change in the obligation attributable to variations in the Unit price is recognized by increasing or decreasing the compensation expense for the period in which the variations occur.

Income Taxes

As the Partnership is not a taxable entity, all income for tax purposes is allocated to its Unitholders with the result that no income taxes in respect of the Partnership are reflected in these consolidated financial statements. Certain U.S. subsidiary partnerships, which are deemed corporations for U.S. tax purposes, and a Canadian subsidiary corporation, are taxable, and applicable income and capital taxes have been reflected in these consolidated financial statements.

The taxes payable method of accounting for income taxes is used for Alliance's Canadian rate regulated pipeline operations. Under the taxes payable method, it is not necessary to provide for future income taxes as these taxes are recoverable from future tolls. The liability method of accounting for income taxes is used for the Partnership's other operations. Under this method, current income taxes are recognized for the estimated income taxes payable in respect of the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting asset and liability bases using tax rates and laws that are expected to apply when the liabilities are settled and the assets realized. Future income tax assets are recognized in circumstances where it is considered more likely than not that the related income tax benefits will be realized.

4/ CHANGE IN ACCOUNTING POLICY

Effective December 2004, the Partnership early adopted the amended Canadian accounting standard for the presentation and disclosure of financial instruments, specifically concerning the classification of obligations that an issuer can settle with its own equity instruments. These amended recommendations are required to be adopted retroactively and result in the Partnership's Convertible Debentures, excluding the value attributable to the conversion option, being classified as a liability on the Consolidated Statement of Financial Position, while the associated interest expense is classified with interest and other finance on the Consolidated Statement of Income and Cumulative Income. To the extent that a portion of the Convertible Debentures is classified as equity, the carrying value of the Convertible Debentures will be less than their face value. This discount is amortized over the term of the Convertible Debentures, utilizing the effective interest rate method. The conversion option is recorded as a component of Partners' equity. At the time of any conversion into Class A Units, the applicable amount of the conversion option is reclassified to Partners' equity. In addition, the associated issuance costs are to be deferred and amortized over the life of the debt. No recognition has been given to the conversion options on the Convertible Debentures as the attributable value is not significant.

To reflect the reclassification of the Convertible Debentures as a liability, certain line items of the Consolidated Statement of Financial Position and Statement of Income and Cumulative Income for the year ended December 31, 2003, have been restated as follows:

	DECEMBER 31, 2003 AS PREVIOUSLY REPORTED	ADJUSTMENT TO REFLECT CONVERTIBLE DEBENTURES AS A LIABILITY	DECEMBER 31, 2003 AS CURRENTLY REPORTED
Consolidated Statement of Financial Position			
Other assets	18,548	7,859	26,407
Subordinated convertible debentures	–	203,280	203,280
Partners' capital account	679,792	(350)	679,442
Partners' equity – convertible debentures	203,280	(203,280)	–
Consolidated Statement of Income and Cumulative Income			
Depreciation & amortization	87,594	1,256	88,850
Interest & other finance	97,998	11,529	109,527
Net income	66,157	(12,785)	53,372
Interest on convertible debentures – classified as equity	11,529	(11,529)	–
Convertible debentures issue costs – classified as equity	9,465	(9,465)	–
Cumulative net income at the end of the period	160,500	8,209	168,709
Net income per Class A Unit	0.64	(0.02)	0.62

Similarly, the December 31, 2004 Consolidated Statement of Financial Position and Consolidated Statement of Income and Cumulative Income have been impacted as follows:

	DECEMBER 31, 2004 BEFORE ADJUSTMENT	ADJUSTMENT TO REFLECT CONVERTIBLE DEBENTURES AS A LIABILITY	DECEMBER 31, 2004 AS REPORTED
Consolidated Statement of Financial Position			
Other assets	15,045	4,358	19,403
Subordinated convertible debentures	–	132,605	132,605
Partners' capital account	753,321	(2,248)	751,073
Partners' equity – convertible debentures	132,605	(132,605)	–
Consolidated Statement of Income and Cumulative Income			
Depreciation & amortization	110,827	1,602	112,429
Interest & other finance	116,121	12,943	129,064
Net income	92,168	(14,545)	77,623
Interest on convertible debentures – classified as equity	12,943	(12,943)	–
Cumulative net income at the end of the period	239,725	6,607	246,332
Net income per Class A Unit	0.76	(0.02)	0.74

5/ CASH AND SHORT-TERM INVESTMENTS

	2004	2003
Cash in trust accounts		
Operations & working capital	12,516	36,717
Capital funding, debt repayment and/or return of equity	6,035	6,350
Debt service & debt service reserve	359	423
	18,910	43,490
Cash in non-trust accounts	16,072	13,013
	34,982	56,503

Under the terms of Alliance's finance agreements, all funds received from shippers in settlement of transportation tolls, as well as interest earned on trust account balances, are segregated in trust accounts and first applied to meet debt service and operating requirements before distributions can be made. At the completion of each fiscal quarter, a determination is made as to the amount of cash and cash equivalents necessary to satisfy these requirements. Excess funds, if any, are transferred to non-trust accounts, which, following lender confirmation, can be distributed.

In addition, the debt service accounts must be sufficiently funded to meet principal and interest payments for a period of six months beyond the current month-end. At December 31, 2004 and 2003, this requirement was satisfied by letters of credit as discussed in Note 11.

Pursuant to a security trust agreement, Alliance was also required to set aside in a separate trust account an amount estimated to be sufficient to pay all the remaining costs associated with constructing and commissioning the pipeline. Any remaining balance can be used to repay long-term debt or can be distributed.

6/ TRANSPORTATION REVENUE

Transportation revenue is adjusted to reflect differences between the period in which costs are recovered from Alliance toll receipts and the period in which these costs are expensed in these consolidated financial statements as follows:

	2004	2003
Tolls invoiced	347,751	253,807
Increase (decrease) related to:		
Accounting depreciation rate	28,753	28,297
Property tax accruals	2,909	3,617
Differences from current period cost-of-service estimates	(766)	(2,733)
Prior year's over recovery	2,583	14,474
	33,479	43,655
Transportation revenue	381,230	297,462

Accounting Depreciation Rate

The long-term receivable at December 31, 2004 includes a regulatory asset of $160.7 million (2003 – $142.0 million) related to the cumulative difference between depreciation expense charged for accounting purposes and depreciation expense included in Alliance's transportation tolls. This difference is expected to be recovered over a number of years when depreciation rates, as prescribed in the transportation agreements, are expected to exceed the depreciation rates used for accounting purposes.

Cost of Service Toll Estimate

Alliance tolls reflect the projected cost of providing transportation service to shippers in accordance with the transportation contracts and applicable NEB and FERC regulations. The tolls are submitted to shippers and filed with the NEB and the FERC, as applicable. Alliance tolls therefore include amounts relating to differences between the estimated and actual costs of providing transportation service in a prior year.

At December 31, 2004, current assets include a transportation revenue adjustment of $7.3 million (2003 – $6.1 million). No adjustment is included in long-term liabilities (2003 – $2.6 million), (see Note 14). These adjustments relate to differences between Alliance's expenses included in these consolidated financial statements and expenses included in the transportation tolls. These differences will be collected from or returned to shippers through an adjustment to tolls in future years.

7/ INVESTMENT IN AEGS

On December 22, 2004, Fort Chicago acquired a 100 percent interest in AEGS for an aggregate purchase price of approximately $273.3 million. This purchase was accounted for by using the purchase method, as set out below, and the results of operation have been consolidated since the date of acquisition:

Purchase price payable in cash	273,283
Liabilities assumed	
Future income taxes	33,025
	306,308
Allocation of purchase price	
Non-cash working capital	1,162
Pipeline & other capital assets	
Pipeline	289,273
Intangible assets – ethane transportation agreements	15,572
Capital spares & other	301
	306,308

The ETAs

AEGS has long-term ETAs, which expire on December 31, 2018, under which it has agreed to provide certain transportation services to shippers at specified firm (ship or pay) and interruptible (volume-based) toll rates. The ETAs provide for the full pass-through of all operating costs, including maintenance capital. Under the ETAs, the shippers are committed to pay a minimum firm toll based on 90 percent of the shippers' total committed volume.

8/ INVESTMENT IN ALLIANCE AND AUX SABLE

On March 24, 2003, Fort Chicago purchased an approximate 1.1 percent interest in Alliance for cash consideration of approximately $18.2 million.

On April 1, 2003, Fort Chicago completed the purchase of an approximate 11.8 percent interest in Alliance Canada and Aux Sable and an approximate 10.7 percent interest in Alliance U.S. As a result of this purchase, Fort Chicago's ownership interest in Alliance Canada and Alliance U.S. was increased to 50 percent and 48.9 percent, respectively, and Fort Chicago's ownership interest in Aux Sable was increased to 42.7 percent. The aggregate purchase price paid by Fort Chicago was approximately $173.9 million. This purchase was accounted for by using the purchase method, as follows:

Purchase price payable in cash	173,868
Equity investment previously recorded	754,703
Distribution receivable	21,986
Liabilities assumed	
Long-term liabilities	37,976
Long-term debt	1,781,382
Capital leases	9,287
Future taxes	109,373
	2,888,575
Allocation of purchase price	
Cash & short-term investments acquired[1]	185,608
Non-cash working capital	(105,969)
Long-term receivables	127,148
Pipeline, plant & other capital assets	2,681,788
	2,888,575

(1) Together with $1.2 million of cash and short-term investments acquired in connection with other purchases, total cash and short-term investments acquired in 2003 was $186.8 million.

On October 30, 2003, Fort Chicago purchased an additional approximate 1.1 percent interest in Alliance U.S. for cash consideration of approximately $7.2 million, increasing its ownership interest to 50 percent.

The March 24, 2003 and April 1, 2003 purchases were financed initially using the Second Bridge Credit Facility and the remaining amount available under the First Bridge Credit Facility (see Note 11). The First Bridge Credit Facility and the Second Bridge Credit Facility were repaid using the proceeds from the public offerings described in Note 15.

9/ PIPELINE, PLANT AND OTHER CAPITAL ASSETS

	COST	ACCUMULATED DEPRECIATION	2004 NET BOOK VALUE	2003 NET BOOK VALUE
Pipeline	2,805,993	392,341	**2,413,652**	2,288,333
Plant	180,146	34,207	**145,939**	160,045
Administrative	20,893	18,603	**2,290**	3,910
Capital spares	14,712	–	**14,712**	12,184
Intangible assets – ETAs	15,572	30	**15,542**	–
Land	2,696	–	**2,696**	2,746
	3,040,012	445,181	**2,594,831**	2,467,218

10/ OTHER ASSETS

	2004	2003
		(Restated – Note 4)
Financing expenses – long-term debt[1]	17,062	22,971
Construction period unit appreciation rights[2]	1,834	2,140
Other	507	1,296
	19,403	26,407

(1) Amortized over the life of the related debt.
(2) Amortized over 10 years commencing January 1, 2001.

11/ SENIOR LONG-TERM DEBT AND CAPITAL LEASES

	2004	2003
Fort Chicago		
Bank credit facility	275,500	–
7.71 percent Senior Notes due 2011 (2004 – US $65,250 / 2003 – US $68,250)	78,534	88,208
Less: current portion	(3,610)	(3,878)
350,424	84,330	
Alliance Canada[1]		
Bank credit facility	17,750	17,600
Senior Notes:		
7.230 percent due 2015	132,397	137,927
7.181 percent due 2023	195,978	204,577
7.217 percent due 2025	156,355	163,043
6.765 percent due 2025	187,028	194,672
5.546 percent due 2023	131,376	142,875
Fair value adjustment	9,401	10,015
	830,285	870,709
Less: current portion	(41,489)	(39,962)
	788,796	830,747
Alliance U.S.[1]		
Bank credit facility (2004 – US $8,850 / 2003 – US $16,400)	10,652	21,195
Senior Notes:		
7.770 percent due 2015 (2004 – US $134,670 / 2003 – US $139,980)	162,088	180,910
6.996 percent due 2019 (2004 – US $143,176 / 2003 – US $153,451)	172,326	198,320
7.877 percent due 2025 (2004 – US $100,000 / 2003 – US $100,000)	120,360	129,240
4.591 percent due 2025 (2004 – US $140,634 / 2003 – US $146,238)	169,267	188,998
Obligations under capital leases (2004 – US $665 / 2003 – US $1,328)	800	1,716
Fair value adjustment (2004 – US $18,679 / 2003 – US $20,132)	27,709	29,714
	663,202	750,093
Less: current portion	(28,193)	(27,435)
	635,009	722,658
Aux Sable[1]		
Bank credit facility (2003 – US $3,843)	–	4,966
Capital leases (2004 – US $5,048 / 2003 – US $5,197)	6,076	6,716
Less: current portion	(201)	(191)
	5,875	11,491
	1,780,104	1,649,226

(1) The amounts set forth in the above table reflect Fort Chicago's proportionate share of the corresponding amounts contained in the financial statements of Alliance and Aux Sable and the fair value adjustments recorded in connection with its purchases of additional interests in these entities.

Fort Chicago Debt

Bank Credit Facilities. On October 28, 2002 and March 28, 2003, the Partnership entered into a $250 million non-revolving committed acquisition bridge credit facility (the "First Bridge Credit Facility") and a $160 million non-revolving committed acquisition bridge credit facility (the "Second Bridge Credit Facility"), respectively, with three Canadian chartered banks. These facilities were utilized by Fort Chicago to purchase additional interests in Alliance and Aux Sable and were subsequently repaid from proceeds of the public offerings described in Note 15.

On October 4, 2004, Fort Chicago Energy Partners entered into a revolving credit agreement with three Canadian chartered banks (the "Banks") which provided for a committed revolving credit facility in the maximum principal amount of $300 million (the "Revolving Credit Facility") to be used by us for general purposes, including for acquisitions and distributions. The Revolving Credit Facility was used to finance the acquisition of AEGS on December 22, 2004.

The Revolving Credit Facility is unsecured and terminates on October 4, 2007, but such a termination date may, from time to time, be extended for further one-year periods subject to lender consent. Outstanding advances under the Revolving Credit Facility bear interest based on various floating-rate borrowing options. A standby fee applies to undrawn amounts under the Revolving Credit Facility.

The terms and conditions of the Revolving Credit Facility include covenants customary to bank credit facilities of this nature including, among other things: (i) the maintenance of debt to total capitalization (excluding the debt and capitalization of Alliance, Aux Sable and certain subsidiaries) of no greater than 40 percent provided that, following consummation of a material acquisition, such as the acquisition of AEGS, this limit increases to 60 percent for the first fiscal quarter following such acquisition and to 50 percent for the second fiscal quarter following such an acquisition, and (ii) net income plus interest, taxes, depreciation and amortization ("EBITDA") to be not less than three times interest expense (excluding the EBITDA and interest expense of Alliance, Aux Sable and certain subsidiaries).

As at December 31, 2004, the Partnership had $275.5 million borrowed under its Revolving Credit Facility (2003 – nil).

Senior Notes. On August 15, 2001, two subsidiary entities of the Partnership issued senior unsecured notes to institutional investors in the United States.

Two series of Senior Notes, Series A and Series B, of equal amount, were issued in the aggregate principal amount of US $75.0 million bearing interest at the rate of 7.71 percent per annum, with interest and principal due quarterly. The total principal for both series is repaid US $0.75 million per quarter with a final payment of US $45.75 million due on the maturity date of July 31, 2011.

These Senior Notes are direct unsecured obligations of the relevant subsidiary entity and rank *pari passu* with all other unsecured and unsubordinated indebtedness of that issuer. Each subsidiary entity has provided covenants customary for note issuances that include, among other things, the following: (i) each issuer will not, at any time, permit its consolidated indebtedness to be more than 50 percent of its consolidated capitalization, in each case excluding the indebtedness and capitalization of Alliance, (ii) each issuer will not permit the ratio of operating cash flow to interest expense, calculated excluding the cash flow and interest expense of Alliance, to be less than 3.0 to 1.0 at the end of each fiscal quarter of such issuer, and (iii) each issuer will not encumber any of its assets except for permitted encumbrances and in the event it sells any portion of its interest in Alliance prior to maturity of the Senior Notes, it will redeem such notes at that time to the extent of the proceeds of such sale plus a make-whole amount and any unpaid and accrued interest thereon.

Each subsidiary entity may redeem all or any of its notes, subject to a minimum of 10 percent of the aggregate principal amount outstanding, at any time prior to maturity at par plus a make-whole payment and any accrued and unpaid interest on the redeemed amount.

Alliance and Aux Sable Debt

Unless otherwise stated, the amounts referred to in this section represent Fort Chicago's proportionate share of the amounts contained in the financial statements of Alliance and Aux Sable.

Alliance Security and Covenants. Under the terms of the Alliance Canada and Alliance U.S. Common Agreement, certain assets and material contracts are pledged as collateral to Alliance's lenders including transportation agreements, permits issued by the NEB and by the FERC, trust accounts, real property and tangible personal property. Alliance is also required to meet specified financial conditions and adhere to specified covenants on an ongoing basis. The senior debt of Alliance Canada and Alliance U.S. contain cross-default provisions, whereby an event of default by one entity constitutes an event of default by the other.

Alliance Bank Credit Facilities. In May 2003, new Canadian and U.S. credit facilities (the "Canadian Credit Facility" and the "U.S. Credit Facility") were established consisting of a $187.5 million committed extendible revolving credit facility and a US $62.5 million revolving credit facility, respectively, of which up to $50 million and US $35 million, respectively, are available by way of letters of credit to support debt service reserve requirements. In addition, a $57.5 million non-revolving Canadian term facility was established. These new credit facilities were established to replace the initial, incremental and revolving credit facilities, which were repaid in full and cancelled on May 30, 2003. Concurrent with the initial cash draw under the new credit facilities, $50 million and US $35 million, respectively, of letters of credit were issued to support debt service reserve requirements.

In June 2003, the net proceeds from the issuance of 5.546 percent Senior Notes, together with available cash balances, were used to repay and cancel $57.5 million outstanding under the non-revolving Canadian term facility and to repay $96.3 million outstanding under the Canadian Credit Facility. Concurrent with the repayment, the Canadian Credit Facility was permanently reduced to $95.0 million.

The Canadian Credit Facility contains an initial 364-day revolving term, commencing May 30, 2004, which can be extended from time to time with lender consent for additional 364-day periods and which if not extended, would result in any outstanding borrowing being converted into a subsequent two-year non-revolving loan. Interest is based on Bankers' Acceptance rates, plus applicable margins. At December 31, 2004, the average interest rate applicable to the outstanding borrowings was 3.22 percent (2003 – 2.8 percent). At December 31, 2004, $50 million (2003 – $50 million) of letters of credit and $17.8 million (2003 – $17.6 million) of borrowings were outstanding, leaving $27.2 million (2003 – $27.4 million) available under this facility.

The U.S. Credit Facility is a three-year term facility, which expires May 30, 2006. Interest is based on floating interest rates determined by the U.S. dollar London Interbank Offered Rate, plus applicable margins. At December 31, 2004, the average interest rate applicable to the outstanding borrowings was 3.17 percent (2003 – 1.94 percent). At December 31, 2004, US $35 million (2003 – US $35 million) of letters of credit and US $8.9 million (2003 – $16.4 million) of borrowings were outstanding, leaving US $18.6 million (2003 – US $11.1 million) available under this facility.

Alliance Senior Notes. During 2003, there were three issuances of Senior Notes as follows:

(i) On January 16, 2003, $200 million was raised through Alliance Canada's issuance of 6.765 percent Senior Notes under a base shelf prospectus which expired on March 31, 2003;

(ii) On June 26, 2003, $150 million was raised through Alliance Canada's issuance of 5.546 percent Senior Notes under a base shelf prospectus filed on June 12, 2003 with Canadian securities commissions providing for the public issuance of a maximum of $500 million of Senior Notes, which can be issued during the succeeding 25-month period; and

(iii) On May 23, 2003, US $150 million was raised through Alliance U.S.'s issuance of 4.591 percent Senior Notes, due 2025.

The Alliance Canada Senior Notes are collateralized on the same basis as the Canadian Credit Facility, and rank equally in right of payment. The Alliance Canada Senior Notes may be redeemed in whole, but not in part, at any time at a price equal to the greater of: (i) the applicable Government of Canada yield price plus a premium; and (ii) par, together with accrued interest. The Alliance U.S. Senior Notes are collateralized on the same basis as the U.S. Credit Facility and rank equally in right of payment. The Alliance U.S. dollar denominated Senior Notes may be redeemed in whole, but not in part, at a price equal to the outstanding principal amount of such Senior Notes plus accrued but unpaid interest, plus a make-whole premium. Alliance may be required to redeem the Senior Notes in whole or in part, from proceeds received under insurance claims or other claims for damages, if the proceeds are not applied to repair or rebuild the Alliance Pipeline.

Interest and principal repayments on the Senior Notes are payable semi-annually each June 30 and December 31, with the exception of the 7.877 percent Senior Notes for which principal repayments do not commence until June 2019. Principal repayments are closely tied to the recovery rates for depreciation and U.S. future income taxes contained in the transportation agreements.

Aux Sable Bank Credit Facilities. On August 29, 2003, a U.S. committed revolving facility was established in the amount of US $19.2 million, which matures on December 31, 2005. Availability is based on eligible receivables, inventory and cash deposits. This new credit facility replaced a prior US $25.6 million credit facility, except for an approximate US $2.7 million outstanding under a construction loan, which was repaid and retired on September 27, 2003. The Aux Sable credit facility contains events of

default and covenants which are customary in loan agreements of this type, including a financial covenant which requires Aux Sable to establish and maintain a debt service reserve account balance of US $0.3 million at all times. In addition, the NGL facilities have been pledged as collateral. Interest is based on floating U.S. interest rates, plus applicable margins. The average interest rate applicable to borrowings under this facility during the year was 6.1 percent (2003 – 3.3 percent). As at December 31, 2004, US $4.5 million (2003 – US $7.7 million) was drawn on this facility and related to outstanding letters of credit (2003 – US $3.85 million letters of credit and $3.85 million in cash).

Aux Sable also utilizes a revolving demand loan of $3.0 million to finance its Canadian working capital requirements. Interest is based on floating interest rates, plus applicable margins. At December 31, 2004, while there were no cash advances outstanding (2003 – $0.1 million), there were issued letters of credit of $1.6 million (2003 – $1.6 million).

Obligations Under Capital Leases

The obligations under capital leases bear interest at varying rates up to 12 percent and mature between 2015 and 2020.

Scheduled Principal Repayments of Senior Debt and Capital Leases

Scheduled principal repayments of senior debt and capital leases, excluding the fair value adjustment of $37,110, which is being amortized over the life of the related debt, are as follows:

FOR THE YEARS ENDING DECEMBER 31	
2005	73,266
2006	72,889
2007	356,273
2008	65,953
2009	73,042
Thereafter	1,168,188
Obligations under capital leases (see Note 18)	6,876
	1,816,487

12/ SUBORDINATED CONVERTIBLE DEBENTURES

	2004	2003
Series A Convertible Debentures	**70,105**	140,780
Series B Convertible Debentures	**62,500**	62,500
	132,605	203,280

In January 2003, the Partnership issued $150 million of 7.5 percent Convertible Unsecured Subordinated Debentures, Series A, due June 30, 2008. The Series A Convertible Debentures are convertible, at the holder's option, into Class A Units at a conversion price of $9.00 per Class A Unit. During the year ended December 31, 2004, $70.7 million (2003 – $9.2 million) of Series A Convertible Debentures, before issue costs, were converted into Class A Units.

In October 2003, the Partnership issued $62.5 million of 6.75 percent Convertible Unsecured Subordinated Debentures, Series B, due December 31, 2010. The Series B Convertible Debentures are convertible, at the holder's option, into Class A Units at a conversion price of $10.70 per Class A Unit. No Series B Convertible Debentures had been converted into Class A Units as at December 31, 2004.

These Convertible Debentures (the "Convertible Debentures") rank equally with all other unsecured and subordinated indebtedness of the Partnership. The Convertible Debentures are currently not qualified investments for tax exempt investors under the *Income Tax Act* (Canada), including, without limiting the foregoing, trusts governed by registered retirement savings plans. Consequently, purchases of these debentures by tax exempt investors are restricted.

13/ TRANSPORTATION SECURITY DEPOSITS

In accordance with Alliance's transportation agreements, shippers who fail to maintain specified credit ratings or a suitable financial position are required to provide acceptable security equal to one year of shipping charges. Transportation security may consist of cash, deposits or letters of credit, and/or other security acceptable to Alliance or its lenders. At the balance sheet date, transportation security deposits include the following:

	2004	2003
Cash deposits	9,248	5,645
Letters of credit	55,590	71,098
	64,838	76,743

14/ LONG-TERM LIABILITIES

	2004	2003
Transportation contracts	26,456	28,898
Transportation revenue adjustment accrued	5,232	6,309
Other	5,631	3,564
Less: current portion	(8,403)	(6,790)
Total long-term liabilities	28,917	31,981

The obligation under the transportation contracts relates to proceeds received by the Partnership in 2002 and 2003 in connection with its acquisitions of additional interests in Alliance Canada Marketing and its assumption of the associated liability arising from the firm transportation contracts. This liability is being amortized on a straight-line basis over the remaining term of the transportation contracts.

Alliance estimates the tolls necessary to recover the projected cost of providing transportation service to its shippers in accordance with its transportation contracts and regulations. The tolls are submitted to shippers and filed with the NEB and the FERC. Alliance tolls include transportation revenue adjustments relating to differences between estimated and actual costs of providing transportation service in a prior year. The Partnership's toll for 2005, filed prior to the end of the 2004 toll period, included $5.2 million relating to differences arising in the 2004 and 2003 toll periods. The Partnership's toll for 2004, filed prior to the end of the 2003 toll period, included an estimate of $3.7 million relating to differences arising in the 2003 and 2002 toll periods and an additional $2.6 million to reflect the actual 2003 difference, which will be adjusted in the Partnership's 2005 toll.

Other long-term liabilities include $2.3 million (2003 – $2.0 million) for the portion of accrued property taxes that are not required to be remitted within one year.

15/ PARTNERS' EQUITY

(a) Partners' Capital Account

(i) Authorized. In May 2003, Unitholders approved the creation of Class B limited partnership units ("Class B Units"). The Partnership is now authorized to issue an unlimited number of Class A limited partnership units ("Class A Units" or "Units") and an unlimited number of Class B Units, issuable in series.

(ii) Issued.

	Class A Units	
	Number	Value
December 31, 2002	74,372,673	442,002
Units issued under DRIP[1] (Note 15(e))	1,430,180	12,514
Units issued pursuant to June 12, 2003 public offering, net of $7,347 of issue costs	15,250,000	127,616
Convertible Debentures converted into Units, net of $350 of issue costs (Note 12)	1,024,437	8,870
Units issued pursuant to October 15, 2003 public offering, net of $4,613 of issue costs	9,065,000	82,864
December 31, 2003	101,142,290	673,866
Units issued under DRIP[1, 2] (Note 15(e))	791,502	7,830
Convertible Debentures converted into Units, net of $1,898 of issue costs (Note 12)	7,852,748	68,777
December 31, 2004	109,786,540	750,473
Units to be issued under DRIP[1] (Note 15(e))	55,624	600
	109,842,164	751,073

(1) Includes Class A Units issued to satisfy a portion of the Partnership's distributions as well as Class A Units issued under the optional unit purchase component of the DRIP.
(2) Includes 573,558 Class A Units valued at $5,576 that were issued in 2004 in respect of the fourth-quarter distribution for 2003.

The weighted average number of Class A Units outstanding for the year ended December 31, 2004 was 104,535,234 (2003 – 85,531,788) and 123,281,392 (2003 – 102,570,610) for determining earnings per Class A Unit on a basic and diluted basis, respectively. The weighted average number of Class A Units outstanding on a diluted basis includes 13,630,566 Class A Units that would be issued if the outstanding Convertible Debentures as at December 31, 2004, were converted.

(b) Distributions

The Partnership has declared and paid the following distributions to holders of Class A Units in respect of 2004 and 2003:

Record Date	Payment Date	Distribution per Class A Unit	Distribution Paid/Payable in Cash	Distribution Paid in Units under DRIP	Total Distribution Paid/Payable
2004					
January 30, 2004	February 23, 2004	0.06875	6,673	347	7,020
February 27, 2004	March 23, 2004	0.06875	6,707	380	7,087
March 31, 2004	April 23, 2004	0.06875	6,735	400	7,135
April 30, 2004	May 21, 2004	0.06875	7,169	–	7,169
May 31, 2004	June 23, 2004	0.06875	7,169	–	7,169
June 30, 2004	July 23, 2004	0.06875	7,169	–	7,169
July 30, 2004	August 23, 2004	0.06875	7,170	–	7,170
August 31, 2004	September 23, 2004	0.06875	7,190	–	7,190
September 30, 2004	October 22, 2004	0.06875	7,206	–	7,206
October 29, 2004	November 23, 2004	0.07250	7,076	565	7,641
November 30, 2004	December 23, 2004	0.07250	7,408	548	7,956
December 31, 2004	January 21, 2005	0.07250	7,360	599	7,959
		0.83625	85,032	2,839	87,871

Record Date	Payment Date	Distribution per Class A Unit	Distribution Paid/Payable in Cash	Distribution Paid in Units under DRIP	Total Distribution Paid/Payable
2003					
March 31, 2003	April 30, 2003	0.18000	12,162	1,250	13,412
June 30, 2003	July 31, 2003	0.18000	11,284	4,900	16,184
September 30, 2003	October 31, 2003	0.19000	11,992	5,295	17,287
December 31, 2003	January 30, 2004	0.20000	14,654	5,574	20,228
		0.75000	50,092	17,019	67,111

(c) Ownership Restrictions Applicable to Class A Units

The Partnership was organized in accordance with the terms and conditions of a limited partnership agreement dated as of October 9, 1997 as amended and restated on November 21, 1997, March 7, 2001 and May 13, 2003 (the "Partnership Agreement"). The Partnership Agreement provides that no Class A Units or Class B Units may be held by a person who is a "non-resident" of Canada, a person in which an interest would be a "tax shelter investment" or a partnership which is not a "Canadian partnership," each for purposes of the *Income Tax Act* (Canada).

(d) Unitholders Rights Plan

The Partnership has a unitholders rights plan (the "Rights Plan"). Under the Rights Plan, one right is issued with each Class A Unit issued. The rights remain attached to the Class A Units and are not exercisable or separable unless one or more certain specified events occur. If a person or group acting in concert acquires 20 percent or more of the outstanding Class A Units (subject to certain exceptions), the rights will entitle the holders thereof (other than the acquiring person or group) to purchase Class A Units at a 50 percent discount from the then current market price. The rights provided under the Rights Plan are not triggered by any person making a "Permitted Bid," as defined in the Rights Plan. The Partnership can amend the Rights Plan without the approval of holders of rights issued thereunder to take into account the issuance of any other classes or series of limited partnership units issued by the Partnership.

(e) Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan

In June 2002, the Partnership adopted a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan, which was subsequently amended in January 2004 to reflect the Partnership's adoption of a monthly distribution policy (the "DRIP"). The DRIP allows eligible holders of Class A Units to, among other things, elect to reinvest the eligible portion of the distribution declared by the Partnership in additional Class A Units at a five percent discount to the average market price or to receive the distribution in cash plus a two percent premium cash payment based on the eligible portion of the distribution. The DRIP also allows participants to purchase additional Units from treasury for cash based on the average market price, subject to minimum purchases of $1,000 up to an annual limit of $100,000 for each Unitholder and an overall limit of two percent of all outstanding Units. The Partnership reserves the right to determine, for each distribution, how much new equity will be issued under the DRIP. At December 31, 2004, an aggregate of 648,376 Class A Units are reserved and available for issuance pursuant to the terms of the DRIP.

16/ UNIT APPRECIATION RIGHTS

The Partnership adopted a Unit Appreciation Rights Plan effective December 3, 1997 pursuant to which unit appreciation rights ("UARs") may be granted to directors, officers, employees and consultants acting on behalf of the Partnership as an additional component of compensation. Each UAR entitles the holder to receive from the Partnership a cash amount equal to the positive difference, if any, obtained by subtracting the market based exercise price established at the time the UAR was granted from the closing price of the Class A Units on the Toronto Stock Exchange on the date of exercise. The following table sets out the accrued liabilities relating to the outstanding unexpired UARs at December 31, 2004 and 2003.

YEAR OF GRANT	NUMBER OF UARS	WEIGHTED AVERAGE EXERCISE PRICES ($)	EXPIRY DATES	UNITS VESTED	VALUE
As at December 31, 2004					
2001	225,000	9.29	March 7, 2006	225,000	475
2002	125,000	8.24	December 12, 2007	125,000	395
2003	117,500	9.05	May 1, 2008 to July 14, 2008	64,167	254
2004	180,000	10.27	March 9, 2009 to June 7, 2009	60,000	132
	647,500	9.32		474,167	1,256
As at December 31, 2003					
2001	500,000	9.29	March 7, 2006	500,000	455
2002	125,000	8.24	December 12, 2007	83,333	245
2003	160,000	9.00	May 1, 2008 to July 14, 2008	53,333	192
	785,000	9.06		636,666	892

In 2004, the cost of the Partnership's UARs was $1.1 million (2003 – $0.9 million). During 2004, 317,500 UARs were exercised at an average market price of $11.41.

The vesting provision for the UARs is as follows: 33-1/3 percent on the date of grant; 33-1/3 percent on the first anniversary of the date of grant; and 33-1/3 percent on the second anniversary of the date of grant. As of December 31, 2004, 100 percent of the UARs issued in 2001 and 2002 had vested, 66-2/3 percent of the UARs issued in 2003 had vested and 33-1/3 percent of the UARs issued in 2004 had vested.

17/ INCOME TAXES

The provision for income taxes differs from the result that would be obtained by applying the combined Canadian federal and provincial statutory income tax rate to earnings before income taxes and equity income. The difference results from the following:

INCOME TAX RECONCILIATION

	2004	2003
		(Restated – Note 4)
Net income before income taxes and equity income	85,018	65,118
Combined statutory income tax rate	34.52%	36.7%
Income taxes at statutory rate	29,348	23,898
Increase/(decrease) resulting from:		
Tax benefits attributable directly to Unitholders	43	190
Future income taxes related to Canadian rate-regulated operations	(13,419)	(11,020)
Large corporations & capital taxes	4,098	4,203
Benefit of intergroup charges	(7,030)	(4,187)
Higher income tax rates in other jurisdictions	3,233	1,441
Unrecognized benefit of current tax losses	4,249	17,080
Recognized benefit of loss carry-forwards	(6,199)	(6,253)
Prior-year tax adjustments	(4,418)	–
Rate reduction	(2,905)	–
Other	395	322
Income taxes	7,395	25,674
Effective income tax rate	8.7%	39.4%

COMPONENTS OF FUTURE TAXES

	2004	2003
Future income tax liabilities (assets)		
Differences in the accounting and tax bases of:		
Pipeline, plant and other capital assets	157,150	134,610
Deferred revenue and costs	60,632	49,016
Non-capital losses	(92,502)	(87,335)
	125,280	96,291
Valuation allowance	20,602	24,058
Future tax liability	145,882	120,349

Accumulated future income taxes of $88,632 have not been recorded in these consolidated financial statements as they relate to the Partnership's Canadian pipeline operation and will be recovered against future toll revenues. Had the liability method been prescribed for ratemaking purposes, such amounts would have been recorded and recovered from revenues.

Fort Chicago has Canadian and U.S. non-capital losses of $17,974 and $228,965 (US $190,170) available to reduce future Canadian and U.S. taxable income, respectively. The Canadian losses expire in 2007 while the U.S. losses will expire in varying amounts from 2020 to 2024.

18/ COMMITMENTS AND CONTINGENCIES

The Partnership has operating leases for office premises, vehicles, railcars, and computer equipment and capital leases for field offices and truck rack facilities. Expected future minimum lease payments under capital and operating leases are as follows:

FOR THE YEARS ENDING DECEMBER 31	CAPITAL LEASE	OPERATING LEASE
2004	1,031	2,963
2005	1,044	2,511
2006	1,044	2,165
2007	1,044	1,777
2008	1,044	1,541
Thereafter	8,625	3,234
Total minimum lease payments	13,831	14,192
Lease imputed interest	(6,956)	–
Capital lease liability	6,876	14,192

Aux Sable is committed to deliver specified minimum quantities of ethane and propane to counterparties at market prices. Failure to meet the specified minimum volumes will result in penalties payable to the counterparties.

Pursuant to AEGS' long-term ETAs, the Partnership is committed to transport specified minimum volumes of ethane in respect of four shippers who are committed to pay a minimum firm toll regardless of whether they transport ethane on AEGS. The shippers are relieved of this obligation to the extent that AEGS is unable, for any reason related solely to its ability, to transport volumes of ethane up to the shipper's contractual capacity. A shipper also has the right to terminate an ETA in certain limited circumstances where the shipper is unable to transport ethane on AEGS for a period of 180 days or more.

The Alliance Pipeline has firm service transportation services contracts with a group of 33 shippers. The transportation service contracts obligate shippers to pay monthly demand charges based on contracted volume, regardless of volumes actually transported on the pipeline. These charges are subject to limited rights for each shipper to receive demand charge credits to the extent Alliance is unable, for any reason related solely to the physical capability of the Alliance Pipeline, to transport volumes of natural gas up to the shipper's contracted capacity that were properly scheduled for delivery. If incurred, demand charge credits would decrease Alliance's revenue and net income. No demand charge credits were incurred during the three-year period ended December 31, 2004.

Fort Chicago, Alliance and Aux Sable are, or may be named as, a party to various legal claims associated with their normal course of business. As at the date of these consolidated financial statements, the resolution of these claims is not expected to have a material adverse impact on the Partnership's consolidated financial position or consolidated results of operations.

19/ FINANCIAL INSTRUMENTS

Borrowings under the bank credit facilities are based on short-term market interest rates and as a result their carrying value approximates fair value. The aggregate fair value of the Senior Notes as at December 31, 2004, based on quoted market prices, is \$1.7 billion (2003 – \$1.8 billion) compared with the aggregate carrying value of \$1.5 billion (2002 – \$1.7 billion).

Cash and short-term investments consist of amounts held in cash deposit accounts with a Canadian chartered bank, as well as investments in deposit instruments and/or commercial paper. Deposit instruments are restricted to government securities or deposits issued by reputable financial institutions maintaining specified minimum credit ratings and meeting certain capitalization tests. Holdings of deposit instruments and commercial paper issued by any one non-governmental issuer are also restricted. All investments have a maximum term to maturity of three months. Due to the short-term, floating-rate nature of cash and short-term investments, the carrying values do not differ materially from the fair values.

Other financial instruments, including receivables and payables, are short-term in nature, thus, their fair values approximate their carrying values.

The Partnership is exposed to credit risk since its businesses are concentrated in the natural gas transportation, ethane transportation and NGL industries, and its revenue is dependent upon the ability of its customers to pay their invoices. This exposure is particularly relevant in the pipeline business where a majority of the Partnership's shippers operate in the oil and gas exploration and development or energy marketing/transportation industries, and may be exposed to long-term downturns in energy commodity prices, including the price for natural gas, or other credit events impacting these industries. Should these shippers be unable to fulfill their obligations under the transportation contracts, and if suitable replacement shippers are not available, the Partnership may not be able to recover its operating and financing costs or make distributions to its owners. In the case of Alliance, this exposure is reduced, in part, by requiring shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or a suitable financial position (see Note 11).

The earnings and cash flows of the NGL business are sensitive to changes in the price of natural gas and NGL. To reduce this exposure, beginning in August 2003, Aux Sable entered into derivative financial instruments referenced to industry standard indices in order to hedge its price exposure to natural gas and NGL.

The Partnership's proportionate share of these contracts at December 31, 2003 and 2004, is as follows:

COMMODITY	MATURITY DATE	NOTIONAL VOLUME	INDEX	STRIKE PRICE	FAIR VALUE 2004	FAIR VALUE 2003
Purchases		(mmbtu/d)		($US/mmbtu)	**($000s)**	($000s)
Collar	March 31, 2005	427	NGI	6.35 – 7.75	**(17)**	–
Call option	March 31, 2005	2,562	NGI	8.77 – 10.00	**2**	–
Natural gas swap	Jan. – Sept., 2005	24,865	Chicago NGI	6.25 – 8.37	**(3,622)**	–
Natural gas swap	April – June, 2005	1,643	Chicago Daily	6.76	**(114)**	–
Natural gas basis swap	Jan. – March, 2005	21,349	AECO – CCG	0.92 – 1.06	**27**	–
Fixed for floating swap	March 31, 2004	1,281	NYMEX	5.74	–	56
Basis swap	March 31, 2004	1,281	NYMEX – AECO	0.70	–	18
Put option	March 31, 2004	2,562	NYMEX	4.90	–	(20)
Natural gas swap	Jan. 31, 2004	4,107	NGI	6.07	–	29
Natural gas swap	March 31, 2004	8,668	AECO	4.32	–	1,125
Natural gas collar	March 31, 2004	17,079	AECO	5.85 – 4.78	–	1,121
Natural gas basis swap	March 31, 2004	17,079	NYMEX – AECO	0.50	–	(158)
Net unrealized gain (loss) on natural gas hedges					**(3,724)**	2,171
Sales		(bbls/d)		($US/bbl)		
Ethane	Jan. – Sept., 2005	5,978	OPIS	20.48 – 25.83	**2,610**	–
Propane	Jan. – Sept., 2005	1,281	OPIS	32.39 – 33.39	**602**	–
Iso-butane	April – Sept., 2005	640	OPIS	38.54	**321**	–
Ethane	March 31, 2004	6,085	OPIS	18.06 – 18.17	–	(801)
Propane	Jan. – March, 2004	2,135	OPIS	23.63 – 25.88	–	(1,035)
Butane	March 31, 2004	640	OPIS	27.20	–	(622)
Iso-butane	March 31, 2004	427	OPIS	27.20	–	(326)
Net unrealized gain (loss) on NGL hedges					**3,533**	(2,784)
Unrealized reduction to future revenues					**(191)**	(613)

20/ SUBSEQUENT EVENTS

The Partnership declared a distribution of $0.075 per Class A Unit for each of January and February 2005.

21/ SEGMENTED INFORMATION

2004	PIPELINE BUSINESSES ALLIANCE PIPELINE[4]	AEGS[2]	NATURAL GAS LIQUIDS[4]	PARTNERSHIP	TOTAL[1]
Revenues[3]	397,427	1,062	397,646	(3,825)	776,171
Natural gas, NGL & transportation[3]	–	–	373,680	–	357,541
Operations & maintenance	52,964	366	947	–	54,277
Depreciation & amortization	106,204	348	3,390	2,487	112,429
Interest & other finance	107,271	–	1,412	20,381	129,064
General & administrative	26,195	44	5,534	6,069	37,842
Net income (loss) before taxes	104,793	304	12,683	(32,762)	85,018
Total assets	2,388,599	308,488	189,175	9,739	2,896,001
Capital expenditures	14,290	–	1,790	81	16,161

2003 (RESTATED – NOTE 4)	ALLIANCE PIPELINE[4]	NATURAL GAS LIQUIDS[4]	PARTNERSHIP	TOTAL[1]
Revenues[3]	312,167	187,221	17,991	506,699
Natural gas, NGL & transportation[3]	–	188,924	–	178,244
Operations & maintenance	37,580	476	–	38,056
Depreciation & amortization	80,261	3,025	5,564	88,850
Interest & other finance	83,378	1,415	24,734	109,527
General & administrative	18,320	3,644	4,940	26,904
Net income (loss) before taxes & equity income	92,628	(10,263)	(17,247)	65,118
Equity income – first quarter	16,777	(3,033)	184	13,928
Net income (loss) before taxes	109,405	(13,296)	(17,063)	79,046
Total assets	2,555,014	191,600	19,334	2,765,948
Capital expenditures	15,827	1,138	231	17,196

(1) After giving effect to intersegment eliminations and allocations to businesses.
(2) Represents the results of AEGS from December 22, 2004, being the date of acquisition.
(3) The Alliance Pipeline transportation revenues include $16.1 million (2003 – $10.7 million) of transportation revenue from the NGL business that eliminates upon consolidation. The natural gas, NGL and transportation costs of the NGL business include the corresponding cost amount.
(4) Represents Fort Chicago's proportionate share of Alliance's and Aux Sable's results from April 1, 2003, being the date Fort Chicago commenced proportionately consolidating its results.

The following table represents Fort Chicago's revenues and pipeline, plant and other capital assets, based on geographic location of each entity:

2004	CANADA	U.S.	TOTAL
Revenues[1, 2]	230,483	545,688	776,171
Pipeline, plant & other capital assets	1,550,597	1,044,234	2,594,831

2003	CANADA	U.S.	TOTAL
Revenues[1, 3]	192,844	313,855	506,699
Pipeline, plant & other capital assets	1,329,893	1,137,325	2,467,218

(1) After giving effect to intersegment eliminations and allocations to businesses.
(2) Includes the results of AEGS from December 22, 2004, being the date of acquisition.
(3) Includes Fort Chicago's proportionate share of Alliance's and Aux Sable's results from April 1, 2003, being the date Fort Chicago commenced proportionately consolidating its results.

22/ RECONCILIATION OF DISTRIBUTABLE CASH TO CASH FLOW FROM OPERATING ACTIVITIES

	2004	2003
Consolidated operating cash flow	**172,042**	87,901
Operating cash flow applicable to Alliance and Aux Sable	**(82,273)**	(17,316)
Operating cash flow of the Partnership[(1)]	**89,769**	70,585
Add/deduct:		
Principal repayments on Senior Notes	**(3,913)**	(4,235)
Change in Partnership non-cash working capital	**737**	171
Distributions earned for period in excess of distributions received in period	**6,142**	6,753
Distributable cash	**92,735**	73,274

(1) Net of support payments made by the Partnership to the NGL business of $2.9 million (2003 – $12.8 million) for the year ended December 31, 2004.

23/ COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in 2004.

The Board establishes corporate governance practices that are consistent with the Toronto Stock Exchange's Guidelines for Corporate Governance and the proposed National Policy 58-201. The Board will continue to review its corporate governance practices in light of ongoing developments in this area. In particular, the Board will monitor recent guideline changes proposed by the securities regulatory authorities.

Composition of the Board

The Board currently consists of seven directors who provide a wide diversity of business experience. Five of the board members are independent of management and are unrelated directors as defined under applicable Canadian securities legislation. One board member, Mr. Guy J. Turcotte, is related as a result of holding the position of Chief Executive Officer until December 31, 2002. Each of the unrelated, independent directors is free from any business or other relationship which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Partnership, other than interests and relationships which arise solely as a result of holding Class A Units.

The Board met on nine occasions for the fiscal year ended December 31, 2004. All directors attended all regularly scheduled Board meetings during the year except for John E. Feick, who missed one such meeting.

Board Committees and their Mandates

The Board has three committees. The committees are as follows: Audit Committee, Compensation Committee and Corporate Governance Committee. The Compensation Committee consists of three members who are unrelated, independent directors. The Audit and Corporate Governance Committees each have five members who are unrelated, independent directors. Each member of the Audit Committee is financially literate as defined under applicable Canadian securities legislation. The Terms of Reference for each of the three committees can be found on Fort Chicago's website.

Audit Committee

Chair: David Drybrough; *Members:* John Feick, Verne Johnson, Arthur Mauro, Stephen Mulherin

The Audit Committee is responsible for reviewing and assessing the adequacy of its charter on an annual basis and for making recommendations to the Board regarding any proposed amendments thereto. The Audit Committee is also responsible for assessing the independence of its members on at least an annual basis and for determining whether or not new members are financially literate. The Audit Committee reviews and recommends to the Board, for approval, Fort Chicago's annual financial statements and related management's discussion and analysis. It also reviews Fort Chicago's interim financial statements and related management's discussion and analysis. The Audit Committee also supervises the preparation and filing of the officers' certification of the annual and interim filings and financial statements of the Partnership. The Audit Committee reviews and approves, as prescribed, among other things, all earnings press releases and all other financial information relating to the Partnership before it is publicly disclosed. The Audit Committee recommends to the Board the Partnership's auditors to be nominated and their compensation. It also reviews and approves the terms of the engagement of the auditors as well as any non-audit services the auditors are to perform. The Audit Committee is responsible for reviewing all audit processes and for overseeing the work of the auditors. The Audit Committee questions the auditors independently of management and ensures the auditors are independent of the Partnership. In addition, it reviews Fort Chicago's internal control procedures to determine their effectiveness and to ensure compliance with Fort Chicago's policies and avoidance of conflicts of interest. The Audit Committee also supervises the Partnership's disclosure controls and procedures, and internal control over financial reporting. The Audit Committee is responsible for, and has established procedures for, the receipt, retention and treatment of complaints regarding the Partnership's accounting, internal accounting controls or auditing matters, details of which are on Fort Chicago's website. The Audit Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and pay the compensation for such advisors.

Compensation Committee

Chair: John Feick; *Members:* Verne Johnson, Stephen Mulherin

The Compensation Committee makes recommendations to the Board with respect to the salary and other remuneration to be awarded to senior executive officers of the Partnership. It also makes recommendations to the Board in respect of all compensation matters including long and short-term incentives such as bonuses, unit appreciation rights and other benefits and is responsible for developing these programs. The Compensation Committee also reviews and recommends compensation for Board and committee service. The Compensation Committee reviews successions plans for key management positions, human resource policies and plans, and the performance and development of the C.E.O. and other senior officers of the Partnership.

Corporate Governance Committee

Chair: Verne Johnson; *Members:* David Drybrough, John Feick, Arthur Mauro, Stephen Mulherin

The Corporate Governance Committee's mandate is to assess the effectiveness of the Board as a whole, and the Board committees, as well as individual directors. It also assesses the Partnership's approach to corporate governance and monitors the relationship between management and the Board. The Corporate Governance Committee is responsible for recommending candidates to the Board for nomination as directors, for the composition of various Board committees and for recommendations regarding Chairmanship of the Board and Committees. The Corporate Governance Committee is also mandated to undertake those initiatives as are necessary to maintain a high standard of corporate governance practices for the Partnership.

GENERAL TAX PRINCIPLES

Fort Chicago Energy Partners L.P. ("Fort Chicago" or the "Partnership") is a publicly traded limited partnership. Each Unitholder of Fort Chicago (the "Unitholder") is a partner in the Partnership and is entitled to receive cash distributions declared by the Partnership. While certain Fort Chicago subsidiary entities are subject to Canadian or U.S. taxes, Fort Chicago is not subject to federal or provincial income taxes as it is a Canadian limited partnership. The annual income, gains, losses, deductions or credits of the Partnership flow through to its Unitholders, who are required to report their allocated share of these amounts on their income tax returns as though the Unitholder had incurred these items directly. These allocations are based on the Unitholders of record on the last day of each month, or if not a business day, then on the preceding business day.

In March, Unitholders of record receive a T5013 and, if a Québec resident, a Relevé 15 tax form that summarizes their allocated share of the Partnership's reportable tax items for the calendar year ended December 31, as well as certain information required to be included in their tax returns. Only the amounts shown on these forms should be entered on each Unitholder's tax return. To assist Unitholders in preparing their tax returns, the Partnership provides Computershare Trust Company of Canada ("Computershare") and the brokerage firms with a letter containing general guidance that we recommend accompany the tax receipts sent to each Unitholder. If you did not receive this letter with your tax receipts, it is contained in the "Investor Information" section of our website at www.fortchicago.com.

1/ *Who should I notify regarding a change of address?*

If you hold your Units directly with Computershare, please notify Computershare directly. If you hold your units in a brokerage account, please notify your broker.

2/ *When can I expect my tax receipts for 2004?*

If you hold Units directly with Computershare, the T5013 (and if you are a Québec resident, the Relevé 15) is mailed to you in early March.

If you hold Units in a brokerage account the brokerage firms, not Fort Chicago, are responsible for sending you these tax forms. Tax information is sent to the Canadian Depository for Securities Limited ("CDS") by Fort Chicago on or about the end of February. The brokerage firms then access the tax information from CDS and are required to issue the T5013 and, if applicable, the Relevé 15 forms by March 31.

3/ *What portion of the distributions is considered to be taxable?*

Distributions paid by Fort Chicago are generally not taxable. As noted in paragraph 11 below, distributions reduce your adjusted cost base ("ACB") and are therefore tax deferred until you dispose of your Class A Units. If the reductions in the ACB of your Class A Units leads to a negative amount, the negative amount becomes a capital gain in the year such a negative ACB amount arises.

4/ *What tax amounts have been allocated to Unitholders in 2004?*

Taxable income is allocated to Unitholders annually based on their ownership on each record date. Assuming you held your Class A Units throughout 2004, you would have been allocated taxable income of $0.334 per Class A Unit, which would represent approximately 40 percent of the $0.836 distribution paid per Class A Unit in respect of 2004. The monthly amounts allocated to Unitholders for 2004 can be found in the "Investor Information" section of Fort Chicago's website at www.fortchicago.com under "Tax Information" and in the table at the end of this section. Unitholders should only report the amounts allocated to them on their T5013 form and, if applicable, their Relevé 15. As noted in paragraph 11 below, any taxable income allocated to you is added to the ACB of your Class A Units for the purposes of calculating any capital gains and losses on the sale of your Class A Units, while any tax losses or deductions allocated to you will reduce the ACB of your Class A Units.

5/ *What taxable income or loss will be allocated to Unitholders in 2005?*

It is extremely difficult to predict the Partnership's taxable income or loss in any given year, due primarily to the volatility associated with the Partnership's natural gas liquids business. Based on current conditions, we expect that the taxable income allocated to Unitholders will represent approximately 70 percent to 85 percent of the 2005 distributions paid by Fort Chicago.

6/ *Why is my distribution being reduced for U.S. withholding taxes?*

Fort Chicago has ownership interests in U.S. businesses, which are capitalized with a combination of debt and equity. For United States tax purposes, Fort Chicago therefore earns, from time to time, U.S. source dividend income and U.S. source interest income. U.S. tax rules require Fort Chicago to withhold U.S. taxes based on the taxable status of its Unitholders.

Commencing in 2005, provided a Unitholder does not own 10 percent or more of Fort Chicago's Class A Units, U.S. source interest income deemed to have been received by a Unitholder should be exempt from U.S. withholding tax under what is referred to as the portfolio interest exemption. Any U.S. source interest income deemed to have been received by a taxable Unitholder, that does not qualify for the portfolio interest exemption, may nevertheless qualify for a reduced rate of U.S. withholding tax under the income tax treaty between the United States and Canada (the "Treaty"), of 10 percent. Any U.S. source dividends deemed to have been received for U.S. tax purposes by a taxable Unitholder should qualify for a reduced rate of U.S. withholding tax, under the Treaty, of 15 percent (five percent for certain corporate Unitholders owning more than 10 percent of Fort Chicago's Class A Units). U.S. source dividends and U.S. source interest income deemed to have been received for U.S. tax purposes by tax-exempt Unitholders should be entitled to a reduced Treaty rate of zero percent. If neither the reduced Treaty rates nor the portfolio interest exemption apply, all U.S. source income for U.S. tax purposes will be subject to U.S. withholding tax at the statutory rate of 30 percent.

If you are unsure of the taxable status of your account, or are currently subject to the statutory withholding tax rate of 30 percent, please check with Computershare or your broker representative, as applicable, to ensure the applicable U.S. Internal Revenue Service form W8-BEN, W8-IMY, W8-EXP or other relevant form has been completed so that you are eligible to take advantage of the reduced Treaty rates noted above.

7/ *Are the U.S. withholding taxes recoverable?*

Unitholders subject to U.S. withholding tax in respect of U.S. source interest income should be able to claim a non-business foreign tax credit to the extent of Canadian taxes paid on the U.S. source interest income allocated to them. If a Unitholder is unable to claim a non-business foreign tax credit for the full amount withheld, the remaining amount may be deductible when calculating their taxable income for the year. Unitholders subject to U.S. withholding in respect of distributions received that are considered to be dividends for U.S. tax purposes should be able to claim a business foreign tax credit to the extent of Canadian taxes paid on the U.S. source business income allocated to them. If a Unitholder is unable to claim a foreign tax credit for the full amount withheld, the remaining amount can be carried forward for 10 years and may be utilized against Canadian taxes paid on U.S source business income allocated to them in those years.

Unitholders who have not completed the applicable W8-BEN, W8-IMY, W8-EXP, or other relevant form, are subject to a 30 percent U.S. withholding tax rate and, as a consequence, the amount of foreign tax credits they can claim will be restricted by prescribed limitations contained in the *Income Tax Act* (Canada).

8/ *What is the amount of U.S. withholding taxes that will be deducted from Unitholder distributions in 2005?*

The amount of U.S. withholding taxes deducted from distributions will be based on the status of each Unitholder (see comments contained in paragraph 6 above) and the amount of U.S. source income allocated by Fort Chicago. It is estimated

that approximately \$0.30 to \$0.40 per Class A Unit of distributions will be considered dividends for U.S. tax purposes in 2005 and approximately \$0.02 to \$0.04 per Class A Unit will be considered U.S. source interest income. The exact amount will depend primarily on earnings generated by our U.S. businesses, the prevailing U.S./Canadian exchange rate, and the number of Class A Units outstanding during the year.

9/ *Are the Class A Units of Fort Chicago considered to be foreign content? What about the Convertible Debentures?*

Fort Chicago's Class A Units are currently considered foreign property for purposes of inclusion in deferred profit sharing plans, registered retirement savings plans, registered retirement income funds and certain other tax-exempt arrangements. However, the federal government's recent budget included a proposal to eliminate the 30 percent limit on foriegn property held by such plans, which if approved, would eliminate this restriction commencing on January 1, 2005.

The Series A and Series B Convertible Debentures are currently not qualified as investments for tax-exempt investors under the *Income Tax Act* (Canada) (the "Tax Act"). The Department of Finance has, however, introduced draft regulations, which if enacted, would make debentures of publicly listed partnerships purchased after February 27, 2004, qualified investments under the Tax Act. Assuming such legislation is enacted as proposed, Series A and Series B Convertible Debentures purchased after February 27, 2004, will be qualified investments, however such debentures will be considered foreign property.

10/ *Can investors, other than Canadian residents, purchase Class A Units of Fort Chicago? What about the Convertible Debentures?*

Class A Units may only be held by persons who are considered to be residents of Canada for the purposes of the Tax Act. In the event that any Class A Units are acquired by a non-resident of Canada, the non-resident person will not be recognized as a partner and the General Partner has the authority to take any steps necessary to ensure that such Class A Units are transferred to a resident of Canada.

The Series A and Series B Convertible Debentures can be purchased by non-residents of Canada. However, for any non-resident holder, Canadian withholding taxes will be deducted from the interest payments and the Convertible Debentures cannot be converted into Class A Units unless the holder meets the Canadian ownership requirements applicable to the Class A Units.

11/ *How do I calculate my adjusted cost base?*

Generally, the ACB of your partnership units will be equal to:

The cost of all units acquired, including commissions

Less: distributions received since acquisition

Less: tax losses and other deductions allocated to you by Fort Chicago and deducted in calculating your taxable income since acquisition

Plus: taxable income allocated to you by Fort Chicago and included in your taxable income since acquisition

These amounts can be obtained from your T5013 and, if you are a Québec resident, Relevé 15, received for each year you have owned the units. Fort Chicago's website at www.fortchicago.com also contains certain historical distribution, tax allocation and ACB information in the "Tax Information" section contained in the "Investor Information" section of the website.

2004 INCOME TAX INFORMATION

ALLOCATED TO CLASS A UNITHOLDERS AS OF	TOTAL PARTNERSHIP	JANUARY 31	FEBRUARY 27	MARCH 31	APRIL 30
Business loss	(8,109,532)	(0.00692)	(0.00691)	(0.00689)	(0.00688)
Canadian dividend income	22,340,000	0.01823	0.01806	0.01794	0.01785
Canadian interest income	15,064,325	0.01229	0.01218	0.01210	0.01204
Foreign interest and dividend income(1)	5,753,107	0.00500	0.00500	0.00500	0.00500
Net taxable income	35,047,900	0.02860	0.02833	0.02814	0.02801
Capital cost allowance	71,679,489	0.058497	0.057948	0.057553	0.057284
Political donations	5,000	0.000004	0.000004	0.000004	0.000004
Charitable donations	24,890	0.00002	0.00002	0.00002	0.00002

ALLOCATED TO CLASS A UNITHOLDERS AS OF	MAY 31	JUNE 30	JULY 30	AUGUST 31	SEPTEMBER 30
Business loss	(0.00688)	(0.00688)	(0.00688)	(0.00688)	(0.00687)
Canadian dividend income	0.01785	0.01785	0.01785	0.01780	0.01776
Canadian interest income	0.01204	0.01204	0.01204	0.01200	0.01198
Foreign interest and dividend income(1)	0.00500	0.00500	0.00500	0.00500	0.00500
Net taxable income	0.02801	0.02801	0.02800	0.02793	0.02786
Capital cost allowance	0.057283	0.057283	0.057275	0.057118	0.056987
Political donations	0.000004	0.000004	0.000004	0.000004	0.000004
Charitable donations	0.00002	0.00002	0.00002	0.00002	0.00002

ALLOCATED TO CLASS A UNITHOLDERS AS OF	OCTOBER 29	NOVEMBER 30	DECEMBER 31	TOTAL
Business loss	(0.00686)	(0.00679)	(0.00179)	(0.07744)
Canadian dividend income	0.01766	0.01697	0.01696	0.21279
Canadian interest income	0.01191	0.01144	0.01143	0.14349
Foreign interest and dividend income(1)	0.00500	0.00500	0.00000	0.05500
Net taxable income	0.02771	0.02662	0.02660	0.33383
Capital cost allowance	0.056678	0.054435	0.054408	0.68275
Political donations	0.000004	0.000004	0.000004	0.00005
Charitable donations	0.00002	0.00002	0.00002	0.00024

(1) This amount was subject to U.S. withholding taxes. The rate of withholding varied with each Unitholder's particular circumstances. Unitholders can claim a foreign tax credit for the amount reported on their T5013 or Relevé 15 forms.

HISTORICAL FINANCIAL AND OPERATING HIGHLIGHTS

($ THOUSANDS, EXCEPT WHERE NOTED)	2004	2003	2002	2001	2000	1999
Financial Highlights		(restated)				
Net income	77,623	53,372	25,734	14,095	26,996	27,046
Net income per Class A Unit	0.74	0.62	0.35	0.19	0.40	0.41
Distributable cash	92,735	73,274	44,889	49,625	*	*
Distributable cash per Class A Unit	0.883	0.822	0.608	0.678	*	*
Distributions paid	87,871	67,111	48,748	49,045	*	*
Distributions paid per Class A Unit	0.836	0.750	0.660	0.670	*	*
Taxable portion of distributions paid(1)	40%	0%	0%	0%	*	*
Taxable income (loss) per Class A Unit	0.334	(0.019)	(0.343)	(0.603)	(1.104)	(0.331)
Total assets	2,896,001	2,765,948	801,946	620,235	634,723	462,600
Long-term debt and capital leases	1,780,104	1,649,226	251,208	113,472	129,792	30,160
Partners' equity	646,992	607,535	469,720	487,311	496,782	429,453
Class A Units outstanding	109,786,540	101,142,290	74,372,673	73,275,759	66,100,829	66,100,829
Class A Unit Returns and Trading Activity						
Total annual return	21.0%	33.9%	(3.6%)	17.1%	18.3%	16.9%
Trading price per Class A Unit						
High	11.55	10.33	9.40	9.55	9.95	7.85
Low	9.09	8.04	7.52	8.20	6.50	5.80
Close	11.40	10.20	8.25	9.25	8.50	7.25
Volume traded	52,962,332	43,655,551	27,161,549	32,615,817	28,608,859	13,005,843
Operating Highlights						
Average daily throughput of pipeline business (100%, billion cubic feet per day)	1.581	1.588	1.481	1.479	*	*
Canadian transportation toll ($ per thousand cubic feet)	0.80	0.77	0.77	0.75	*	*
U.S. transportation toll (US $ per thousand cubic feet)	0.52	0.51	0.46	0.47	*	*
Average daily throughput of NGL business (100%, thousand barrels per day)						
Ethane	34.2	24.3	23.1	24.2	*	*
Propane plus	36.0	26.1	25.7	21.3	*	*
	70.2	50.4	48.8	45.5	*	*
NGL composite average price (US cents per gallon)	60.7	50.2	35.5	37.5	*	*
Chicago average daily natural gas price (US $ per mmbtu)	5.83	5.56	3.33	4.02	*	*

**Distributions commenced following the start-up of the Alliance Pipeline and Aux Sable in December, 2000. No operating highlights are provided prior to 2001.*
(1) Represents taxable income allocated to Unitholders as a percentage of distributions paid.

CORPORATE AND INVESTOR INFORMATION

Officers

Guy J. Turcotte
Chairman

Stephen H. White
President and Chief Executive Officer

Kevan S. King
Vice President, General Counsel & Secretary

Hume D. Kyle
Vice President, Finance & Chief Financial Officer

Vern A. Wadey
Vice President, Business Development

Board of Directors

Guy J. Turcotte
Calgary, Alberta

David J. Drybrough (1) (3)
Winnipeg, Manitoba

John E. Feick (1) (2) (3)
Calgary, Alberta

Verne G. Johnson (1) (2) (3)
Calgary, Alberta

Arthur V. Mauro (1) (3)
Winnipeg, Manitoba

Stephen W.C. Mulherin (1) (2) (3)
Calgary, Alberta

Stephen H. White
Calgary, Alberta

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee

Head Office

Fort Chicago Energy Partners L.P.
2150, 300 – 5th Avenue S.W.
Calgary, Alberta T2P 3C4
Phone: (403) 296-0140
Fax: (403) 213-3648

Unitholder Inquiries

If you have inquiries regarding the DRIP, address information, Unit transfers, distributions, or duplicate mailings, please contact our Registrar Transfer Agent, Computershare Trust Company. For all other inquiries, please contact Fort Chicago's Investor Relations personnel or visit Fort Chicago's website.

Investor Relations

Fort Chicago Energy Partners L.P.

Phone: (403) 213-3633
Email: investor-relations@fortchicago.com
Website: www.fortchicago.com

Transfer Agent & Registrar

Computershare Trust Company Of Canada
600, 530 – 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Phone: 1-800-564-6253
Toll-free Fax: 1-888-453-0330

Computershare also has offices in Vancouver, Toronto, Winnipeg, Montréal

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Solicitors

Bennett Jones LLP
Calgary, Alberta

Bankers

The Toronto-Dominion Bank
Calgary, Alberta

Bank of Nova Scotia
Calgary, Alberta

Canadian Imperial Bank of Commerce
Calgary, Alberta

Publicly Traded Securities

Listed on the Toronto Stock Exchange:

Class A Units

Trading Symbol FCE.UN

Distributions Monthly

Record Date Last business day of each month

Payment Date 23rd day following Record Date, or if not a business day, the prior business day

7.5% Convertible Debentures, Series A & 6.75% Convertible Debentures, Series B

Trading Symbols FCE.DB.A, FCE.DB.B

Interest Payable Semi-annually on June 30 and December 31

Premium Distribution, Distribution Reinvestment & Optional Unit Purchase Plan (The "DRIP")

Fort Chicago offers a DRIP to eligible Unitholders. Subject to Fort Chicago's right to limit equity issued under this plan, participants can:

(i) reinvest distributions into Class A Units at a five percent discount to a weighted average market price, under the distribution reinvestment component of the DRIP; or

(ii) receive a cash distribution that includes a two percent premium over the eligible portion of the distribution, under the premium distribution component of the DRIP; and

(iii) invest in additional Class A Units, at the weighted average market price, up to an individual annual aggregate limit of $100,000.

Unitholders wishing to enroll in the DRIP who hold Units through an investment dealer, financial institution or other nominee must make their elections through these institutions. Registered holders, including nominees, must submit their enrolment forms to our Transfer Agent and Registrar, Computershare Trust Company

Additional information, including enrolment forms, can be obtained on Fort Chicago's website or by calling Computershare Trust Company at 1-888-564-6253.

Notice of Annual Meeting

The Annual Meeting of Unitholders will be held on May 25, 2005 at 4:00 p.m. at the Metropolitan Centre in the Strand/Tivoli Room, 333 – 4th Avenue S.W., Calgary, Alberta. All Unitholders are encouraged to attend.

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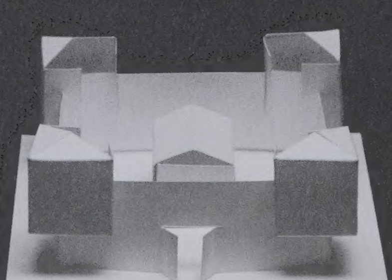

Fort Chicago Energy Partners L.P.
Suite 2150, 300 – 5th Avenue S.W.
Calgary, Alberta T2P 3C4
www.fortchicago.com